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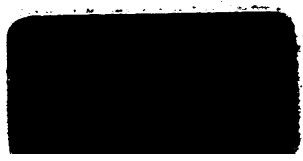
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Reviving the activities...





REVIVING THE ACTIVITIES OF THE
WAR FINANCE CORPORATION

JOINT HEARINGS

BEFORE THE

COMMITTEES ON AGRICULTURE AND FORESTRY
CONGRESS OF THE UNITED STATES

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

S. J. RES. 212

A RESOLUTION DIRECTING THE WAR FINANCE CORPORATION
AND THE FEDERAL RESERVE BOARD TO TAKE CERTAIN
ACTION FOR THE RELIEF OF THE PRESENT DEPRES-
SION IN THE AGRICULTURAL SECTIONS
OF THE COUNTRY

Printed for the use of the Committee on Agriculture and Forestry



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REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

THURSDAY, DECEMBER 2, 1920.

JOINT SESSION OF THE SENATE AND HOUSE COMMITTEES ON AGRICULTURE, *Washington, D. C.*

The Committee on Agriculture and Forestry of the United States Senate and the Committee on Agriculture of the House of Representatives met, pursuant to call, at 2 o'clock p. m. in the rooms of the Senate Committee on Agriculture and Forestry, Senator George W. Norris presiding.

Representative FLOOD. Mr. Chairman, I have a telegram from Mr. W. R. Ogg, the secretary and treasurer of the Tobacco Growers Association of Virginia and North Carolina, advising me that they have not had sufficient time to appoint a representative to be at this meeting, and requesting that I appear and look after their interests. I presume Senator Swanson has a similar telegram, and I suggest that if these hearings are to continue for several days that an opportunity be given a representative of this association to be heard.

The telegram is as follows:

LYNCHBURG, VA., December 2, 1920.

I. D. FLOOD,

House of Representatives, Washington, D. C.:

We had insufficient time to appoint a representative to confer with Senate and House Agricultural Committees in joint session to-day. Will you please attend this meeting and look after interests of tobacco growers toward larger credit facilities for them and toward opening of foreign markets, increase of prices, and any other propositions which you may consider advisable?

W. R. Ogg,
*Secretary-Treasurer, Tobacco Growers Association of
Virginia and North Carolina, Danville, Va.*

Senator SWANSON. Mr. Chairman, I have a similar telegram to the one just presented by Mr. Flood, as follows:

LYNCHBURG, VA., December 2, 1920.

CLAUDE A. SWANSON,

United States Senate, Washington, D. C.:

We had insufficient time to appoint a representative to confer with Senate and House Agricultural Committees in joint session to-day. Will you please attend this meeting and look after interests of tobacco growers toward larger credit facilities for them and toward opening of foreign markets, increase of prices, and any other propositions which you may consider advisable?

W. R. Ogg,
*Secretary-Treasurer, Tobacco Growers Association of
Virginia and North Carolina, Danville, Va.*

I also request that if these hearings are to continue for any length of time that an opportunity be given a representative of this association to be heard here.

Representative BYRNES of South Carolina. Mr. Chairman, the Cotton Growers Association would also like to have a representative heard here. Mr. Wanamaker is president of that association, and he would like to be heard.

Senator NORRIS. Mr. Scroyer, secretary of the Farmers' Union of Nebraska, is in the building, in my office, and if it is agreeable to the members of these committees, I would like to have Mr. Scroyer heard this afternoon.

Senator KENYON. Mr. Chairman, while Mr. Scroyer is coming, I suggest that Mr. Meyer, who was formerly a director of the War Finance Corporation and who accompanied the Reconstruction Committee on its tour of investigation throughout the country, be heard, to give to the committee such information as was secured by that Reconstruction Committee.

Senator NORRIS. We will hear Mr. Meyer now, if there is no objection.

STATEMENT OF MR. EUGENE MEYER, JR., FORMERLY MANAGING DIRECTOR OF THE WAR FINANCE CORPORATION.

Mr. MEYER. Senator Kenyon, I assume it is in order for me to report a little about the trip of the committee of which you are a member and of which Senator Calder is chairman. Senator Calder, the chairman, not being here, I was a little reluctant to have it appear in the form of a report of that trip.

Senator KENYON. Well, give your own observations.

Mr. MEYER. I was simply an attendant of the committee, having been asked by Senator Calder to make some observations on financial matters.

Senator KENYON. Have you stated your position and official connection?

Mr. MEYER. I was formerly a director of the War Finance Corporation, from the time of its incorporation, and managing director from July 1, 1919, until June 1, 1920.

When Senator Calder undertook to investigate reconstruction, the production for the Senate committee of which he was chairman, he asked me as to the housing situation and for some suggestions, and I pointed out that the housing situation was only one factor of a general situation in which scarcity of capital was the fundamental fact which was making the trouble, and he asked me how the housing industry could get capital, and I told him that it could not under the circumstances; he asked me how the circumstances could be changed so that it could be done. I said if we had more earning and less spending it could be done. That led to my suggestions on the whole situation, and after that I accompanied the Senator on his trip.

Senator NORRIS. Mr. Meyer, if you will excuse the interruption, Mr. Scroyer is now in the room, and if you will allow Mr. Scroyer to be heard now so that he may get away, it will very greatly accommodate him.

Mr. MEYER. I will be very glad to.

Senator NORRIS. Mr. Scroyer, the committee will be glad to hear you.

STATEMENT OF MR. J. A. SCROYER, SECRETARY OF THE FARMERS' UNION OF NEBRASKA.

Mr. SCROYER. Gentlemen, I want to say to you that I probably have nothing new to say to you this afternoon any more than what you have heard, but I certainly can confirm any of your ideas in regard to these western conditions and the deplorable state in which the farmers find themselves.

Senator NORRIS. I wish you would tell the committee where you live and what your business is.

Mr. SCROYER. I live in Nebraska, the southeastern part of Nebraska. I have lived there for 41 years on one farm, and have been engaged solely and only in farming.

Senator NORRIS. What connection, if any, have you with any farm organization?

Mr. SCROYER. For about the last four years I have been on the State Board of the Farmers' Union of Nebraska, and also secretary of that organization.

Senator NORRIS. Does your business as such take you over much of the State, and if so, how much?

Mr. SCROYER. The entire State of Nebraska, from border to border, every way.

Senator NORRIS. Now, I wish you would tell the committee in your own way just what the conditions are of which you have personal knowledge.

Mr. SCROYER. During the summer I have seen a crop grow and mature which is the best—not nearly the best, but the best that was ever grown in that State. We have a splendid crop of corn, a crop of corn never exceeded. Almost every acre has reached its limit of production this year. Our wheat, with very few exceptions in limited territory, is the best ever grown in that territory. It was uninjured by rains during the harvesting and thrashing, and is stored and thrashed in the best possible condition that grain could be cut and thrashed in that State.

We had hay from one end of the State to the other that was never equaled in quantity or quality. The rain never interfered with the harvesting of that hay, and it stands in the barns and stacks in immense quantities. There is more than I have seen in any other year.

Our oats crop is immense. On my own farm it went 56 bushels to the acre. We think we have the greatest oats crop that was ever grown in Nebraska.

Our hog and pig crop is not so large, on account of the terrible conditions that prevailed.

Our cattle are not so numerous as they ought to be, and yet they seem to be more numerous than we care to have them. The reasons are these: We have no market for our wheat; the cars could not carry it away. Consequently it is lying in our bins. Last week I saw in Custer County, wheat at \$1.56 a bushel, as fine wheat as ever was grown in Nebraska. And the seed for that wheat was probably bought at \$2.50 or \$3.50 per bushel if the farmer did not raise it himself and had to buy it. There was an immense amount of seed sold throughout the State at that price. The harvesting cost was very great, about 70 cents an hour. The twine was bought at a high

price. The food we fed to our harvesters and thrashers was the highest that was ever known. It was tremendous. And I want to say that the thrashing bill was the highest that was ever known. It was 12 cents a bushel. We paid that actually on our own farms \$200 a day for one day's thrashing—12 cents a bushel. All this added expense beyond what we had paid before is added to our wheat, and we find it in our bins at the magnificent price of \$1.56 a bushel. And much of it is raised on land on which the owner is in debt. This year we are building a new State House, and building consolidated schools, and are building \$6,000,000 worth of roads, so I will not be surprised when I get back home and get my tax statement to find that it is nearly \$2 an acre taxes.

Men, these are the actual conditions. I know it will be above \$1.50 for taxes. These are the conditions in regard to the wheat market.

On the corn market like conditions prevail. Some of our boys were patriotic enough not to try to get exemption, but went to the war. Some of them sold their horses and tools, and some of them put the money into the bank, and when they came back, as my boy did, he invested the money in new-seed wheat at \$3.50, and had to get a few implements, and harness, which cost \$32 a set, actually on my farm, although the hide only brought us \$8.60 during the war times.

Senator CURTIS. Now they are selling for \$1.25.

Mr. SCROYER. I don't know. We haven't anything now to buy them with.

The corn that that boy has raised will bring 40 cents a bushel. In Humboldt, Nebr., it was 35 cents. It was 40 cents in my town.

Senator NORRIS. Your town, while you say it is in southeastern Nebraska, it is pretty well east?

Mr. SCROYER. Yes; in the best part of Nebraska.

Senator NORRIS. And it is fair to say that all through the State corn would not exceed 40 cents?

Mr. SCROYER. No, sir; I don't think it would any place in the State.

These soldier boys and the other renters, and the landlords themselves—but the renter, especially if he pays one-half of the grain to the landlord, it leaves 20 cents a bushel, but he has to pay 7 cents a bushel for the husking, and 3 cents a bushel for the shelling, and that leaves him the splendid sum of 10 cents a bushel. If he was a real hard-working farmer, and took no vacations, he might have raised 2,000 bushels of corn during the summer. Gentlemen, he has \$400 to pay his past debts with, and to pay his debts that will accumulate and get him through the winter and get ready for another year's business with, if he has been a successful farmer.

Senator KENYON. The papers carried a story that some of the farmers were going to burn their corn for fuel; is there anything to that?

Mr. SCROYER. I was in Custer County a week ago to-night or yesterday. I heard the farmers discussing this very question. Gentlemen, they were stunned; they were beyond the stage of accusation or rebellion; they were actually stunned. Several of them in the audience did say that; they actually said it; I discouraged it as much as possible. I said, "Gentlemen, the world needs our food

supplies; let us not destroy it. As long as Nebraska has a tree, or we can ship in coal, let us do it." They said, "No, Mr. Scroyer, you would not do it either. If it costs more for us to sell that corn and we are bothered trying to do the work—if it costs us more than it does to get the coal, and the coal is not worth as much as the corn, we are going to burn it." These men actually said that a week ago to-night or yesterday. They said, "We are going to burn the corn."

Senator KENYON. Do you know what the corn crop of the United States is this year?

Mr. SCROYER. No, sir; I do not know.

Senator KENYON. What is the corn crop of Nebraska?

Mr. SCROYER. I can not tell you that either.

Senator KENYON. You know it is the largest you have ever had?

Mr. SCROYER. Yes; it is the largest we have ever raised.

Senator KENYON. So your problem is this great surplus?

Mr. SCROYER. Yes, sir.

Senator KENYON. What is your remedy?

Mr. SCROYER. I have some remedies, gentlemen. If you say there is a law of supply and demand and that is what controls these things, gentlemen, that is not true. Don't you believe it. If you do in theory, you can not do it in practice. We know in Nebraska the hog crop is the shortest it has ever been for years. But in Nebraska the other day a man in Custer County, or any other county for that matter, who loaded his fat hogs on the car, the hogs that weighed 300 pounds apiece, the kind that the Government told me they needed for export to these countries that to-day are starving—they told me to encourage the raising of hogs, and, gentlemen, I did it, and last week I saw some of those farmers who followed my advice load their fat hogs that weighed 300 pounds, and between the time they loaded them on the road to Omaha, which took two days to reach there, they found that those hogs had dropped, not only \$1, but \$2 per hundred, making \$6 on a 300-pound hog, between the farm and the market. And you gentlemen know that no depreciation had occurred in the hog market to justify that. So whenever that argument is brought up of supply and demand, that is not the situation, and does not have anything to do with the conditions that meet one now.

My reasons are these: I have written four or five of them down, for fear I would not get them in the order that I should. I certainly know what they are, and the most important, and the order in which they should be done in the United States to bring about what we farmers want. I want to tell you, as I came along and looked up at one of these magnificent marble temples that the Government has built, and the inscriptions on it, it said this: "The best home is the home on the farm." It said, "The main source of national wealth is the farm." It said, "The foundation of supplies is the farm." And down below it said, "The farmer will cause the desert to blossom as the rose." Gentlemen, I have seen that Nebraska farmer coming into the desert, and I have seen him make it blossom as a rose, and to-day I have seen it enter into the veins of the farmer and prick his life blood, and to-day he is on the verge of ruin, although he may own \$50,000 worth of Nebraska land, because he can not borrow any money. And a banker from Table Rock told me the other day on the way to Humboldt, he said: "Scroyer, I know these people, and

I have \$200,000 loaned on these farms. I am compelled to call them in—I want to do all I can for them, but I am compelled to tell them to sell their hogs and cattle even if they are not quite fit to go; to sell their wheat, although it is below the cost of production, and pay me some money so I can go on up and pay it again." And, gentlemen, here are some things that are confronting the people of Nebraska. They are compounding our interest every 90 days. Gentlemen, you studied compound interest, and if you do not remember how, just ask one of your children in school, or the teacher, to figure it up for you, and you will find that for \$100,000,000 loaned to the farmers, compounded every 90 days, you will see where we farmers are going to come out at.

Representative TINCHER. What is the rate of interest?

Mr. SCROYER. Seven per cent; in the rest of the State it is 10.

Senator NORRIS. You can not get it any other place at less than 10?

Mr. SCROYER. No. Mr. Norris knows I live in the best part of the State.

I want to say to you gentlemen that we must have an extended credit, and equal credit. Gentlemen, we do not ask for favors; we do not ask the Government of the United States to donate a cent to us, but we demand equal credit. You know what equal credit is. If one of my neighbors has a carload of cattle, young stuff, and is not able to finish them, and one of his neighbors could handle these cattle, he has the feed, but not the money, he goes to the bank for the money, and the banker says, "No; you can't have it. You let your feed lie still; I am going to ask you to sell it next week at a reduced price and pay on your note. You can not finish these cattle and raise more meat products to feed the world." And there he is. But suppose he or his son wants a new automobile, he can go to town and trade in the old one for \$500 and give a note for \$2,000, and that same banker will cash the note. Gentlemen, we demand equality. During times past we have borrowed money, and I did, at 8 per cent; I do not think I ever paid over 8 per cent. And yet we have known the railroads to borrow thousands and thousands of dollars at 4 per cent. And what we want is equal credit. We don't want anybody to say, "Why, the farmers' money is not as good as anybody's." And we want extended credit, so that we do not have to compound our notes every 90 days. This is no guesswork. This is true, and I can find you the farmers that are doing it.

Senator GORE. That is when they do not pay their interest?

Mr. SCROYER. When they renew their notes. Suppose you have a note for three or four years, and you go to renew it, the banker says, "90 days only," and he begins to compound it every 90 days.

Senator GORE. I don't quite understand that.

Mr. SCROYER. If a year ago I had bought a carload of cattle, young stuff, and sent them out and realized on that stuff, but still owed \$1,500, and I went down and asked them to renew that for a year they would say, "No, sir; you can not have it but 90 days."

Senator GORE. They charged you 8 per cent for the year?

Mr. SCROYER. Yes, sir.

Senator GORE. If you renewed it for the year it would be 8 per cent a year?

Senator NORRIS. But they add the interest to the interest every 90 days.

Mr. SCROYER. If you get any school boy to figure that up for you you will find it will eat you up in about seven years.

We want immediate export. When I heard that banker make that remark on the train the other day, I went to Kansas City and I heard the managing director of the War Finance Board get up in Kansas City before a band of farmers and say "We want the War Finance Board reestablished." Gentlemen, I am not here to give you advice whether you should reestablish that board or not. That is not what I am here for. But we asked him some questions, some one in the crowd did, "Honored sir, when will we be helped by these plans that you have been talking about?" He said, "After awhile; we are going to finance the exporters, and then the exporters can be relieved, and then we will relieve you gentlemen." Honored gentlemen, they are relieving us right now. If they get our cattle at reduced prices, if they get our wheat and corn and hogs, what do we care then? Of course, we want starving Asia and Europe to get our food as quickly as possible, but what will it help us after somebody has taken everything out of our hands? Somebody has the bulk of our goods.

Senator CURTIS. You want arrangements now?

Mr. SCROYER. We want immediate export. If you want to make provisions for a relief, we want the Federal land banks restored. We had that and that gave some relief, and I will not say much about it, because you gentlemen will know that the farmers virtually throughout the United States want it—the restoration of the Federal land banks.

Senator NORRIS. Of course, you understand that the constitutionality of the act creating those banks is now in the Supreme Court?

Mr. SCROYER. Yes; I know that, but we want them.

And the abolishing of dealings in futures. Some time ago, gentlemen, we had raised a certain amount of corn. I have forgotten what it is. Some one asked me here, but I have forgotten. I do not carry those figures in my mind. I am as certain as that I stand here to-day that the papers reported that that corn had been sold three times already in the United States, fictitiously raising and lowering the prices of our products by dealing in futures. The farmers, not only of Nebraska but of the whole United States, demand that this dealing in futures be taken away and that we be set free from the terrible octopus that is consuming us. We want the abolishment of future dealings.

And we want a stabilizing of the markets. But before I say anything about that I want to say one word about the tariff on farm products. Gentlemen, we have learned. We used to be somewhat of a free-trade proposition, but we have seen our things increase and grow and bring profit to others by the tariff. Now, fellow Democrats, of which I am one—or was one, I mean—all over the United States had sanctioned the Republican policies of many years. No, gentlemen, you are mistaken in that. They are sanctioning the coming Republican policy that is coming in the coming years. And we demand, along with other people, that we be taken care of. Here are the dangers that have arisen along that line. Manufacturers have put their products so high that we can not buy them. You gentlemen may know about this—although you may be farmers, you are

out of the field just now. The big interests are going to take these machines that we can not buy into South America on the cheaper land, or to Canada and other places—I have a farm in Canada, and am shipping wheat to the United States now, so I am talking against my own interests—but we want that tariff that will protect us as well as other people. So I leave that up with you; you have studied the tariff long before I coincided with you.

We want a stabilizing of the markets. To illustrate, that proposition I told you about the hogs is a fair sample. Two years ago perhaps, this fall, I stood on my station platform—before this crash came. One of my neighbors went to St. Joe and sold to a farmers commission firm in that city, or sold through that firm. I stood on the platform when he came home, and I said, "How did you get along?" He said, "Terrible; the hogs are not sold yet. The market dropped \$1.25 between the time I left Humboldt and the time I reached the market." Think of that. We want a stabilizing of the markets.

Now, we want—I am not going to say before this body much about the proposition—but we want for Secretary of Agriculture, and I do say that, we want a man of certain character; we want a man who can take hold of its problems. Gentlemen, I am not talking of your problems now, but somebody else's. But we do want a man who knows the farmer and is with the farmer, and consequently can be for the farmer. We want a "dirt farmer." That is the reason millions of us turned over and voted for Mr. Harding this year. We want a man to direct in agricultural pursuits, because he knows the conditions; because he has followed the plow. The assertion has been made to me since I have been in the Capital that there are only two men—I do not know whether the man is in the room or not now—I have not caught his eye yet—but there are only two men who are big enough for Secretary of Agriculture. Gentlemen, you do not know the progress that the farmer has made. You do not know the thoughts that they are thinking.

I want to say to you that there are a hundred men in the farm ranks big enough for Secretary of Agriculture—a thousand of them, when we come to that. And the farmers are going to demand this week—60 cars of the Bolshevik organization, are going down through Nebraska preaching the doctrine. Don't you worry, they are going down there. One hundred and twenty of them, 60 cars, are preaching the doctrine. I heard one of those men say last week on the street of a little city—I could point you to the very spot—I said to him, "It is a pity wheat is going down to \$1.15 as I see it going." He said, "Let her rip, the lower it goes the more men we can get to pay \$18 to us." Gentlemen, that danger stands in front of us now. And the reason they say that is that the farmers have never been treated fairly. The history of farmers in Nebraska, Mr. Norris and others, is that we have never placed ourselves properly before you. With 40,000 constituents, 80,000 now with the women, we have not asked for office. In Nebraska we have more laws than any other State in the Union has given to farmers, and did not think about putting ourselves into office. This new organization and plan demands that only farmers be placed in office. And, gentlemen, unless we shall curb that spirit that is joining with the labor element—I mean the lower part of the labor element—unless we do

get real farmers placed in charge of the affairs of the farmers there is a danger there.

I do not hold it above you as a threat, but I say it is a condition that you have got to understand and make Mr. Harding understand. Therefore we are not only going to ask but demand that we have a Secretary of Agriculture who has held the plow, who knows the industry, and who knows cooperative industry. That is one of the things we demand. I do not want to talk to you longer. I certainly thank you for the little bit of time you have allowed me here to-day. If there are any questions that you want to know about agriculture in Nebraska, I will not say that I will be able to answer them but I will try to. If not, I thank you exceedingly for this privilege.

Senator NORRIS. Would you be able to give us your ideas as to how the stabilizing of the market should be brought about?

Mr. SCROYER. The stabilizing of the markets, we will have to have an arbitrary committee. We have such things in the United States in some lines. We want an arbitrary committee, if nothing else will answer. I think the removing of future dealings will have much to do with it. But a Secretary of Agriculture who can investigate along this line and deal with the farmers will help us largely.

Senator KENYON. Did you mean what you said about fixing prices?

Mr. SCROYER. No; I am not a price fixer at all.

Senator KENYON. You said something about fixing the prices.

Mr. SCROYER. No, sir; I do not believe in what was done or fixing the prices for a whole year.

Senator KENYON. You do not believe in fixing prices?

Mr. SCROYER. No, sir; I do not. We have an organization that is putting that over in the State. The farmers' union has not stood for that, although they are calling our men away from us on that line by this Bolshevik argument that can be used in these times.

Senator GORE. The price fixed during the war, was that satisfactory?

Mr. SCROYER. Oh yes, during the war.

Representative RIDDICK. That was not satisfactory to the northwestern farmers; I speak as one who knows how the northwestern farmers feel.

Mr. SCROYER. It certainly did this: When the wheat was rising to \$3.50 it cut us down, but we said that was patriotism.

Representative RIDDICK. The prices of everything that wheat entered into were fixed. Everything else was allowed to go as it would.

Mr. SCROYER. Yes. Gentlemen, I carried a hat into this room. I do not know where it is now, but to show you something about the unstabilized condition, that hat cost me 4 bushels of corn during the highest prices. The other day I went into a store and wanted to replace it, and I tell you, gentlemen, I had to have that old hat cleaned and have a new band put on and wear it. I could not replace it. That hat, which cost me 4 bushels of corn, when I went to replace it the other day would have cost me $21\frac{1}{2}$ bushels of corn. This suit of clothes which I have on was listed up to \$37.50 during the war. It is just such a suit as we farmers wear. The other day it still had that \$37.50 on it. I could have paid for it with 18 bushels of corn at one time, and the other day when I went in to price it, it would have cost me $62\frac{1}{2}$ bushels of corn. It is the reduced prices now.

I see the same reductions marked on these windows here that I got on this suit of clothes.

Representative HEFLIN. May I ask how about the cost of production of corn and wheat this year compared to other years?

Mr. SCROYER. It is just as heavy.

Representative HEFLIN. What does it cost to produce a bushel of corn or wheat?

Mr. SCROYER. I heard that so many times that the information is not reliable. I could not tell you the exact figures. Our State has that, but I do not keep it in mind.

Senator NORRIS. Mr. Scroyer, I wanted to ask you if there were any instances that came under your observation where a tenant farmer has produced a good, big crop of corn and given it up and left it, thinking it would cost more than he could get out of it to pay his rent and to harvest it?

Mr. SCROYER. I did not see it, but I have heard of it. In my own neighborhood, where the one-half rule prevails—gentlemen, do not take these figures but they can be verified. The young man who returned from the war and bought his seed corn and went out and produced a crop of corn, that corn, after he gives his landlord one-half of it—this is common in my neighborhood, on this \$300 and \$400 land—he has 20 cents left. He has to go and gather his own landlord's corn, and it costs 10 cents a bushel to gather and to shell it, and then he has 10 cents left.

Senator NORRIS. What does it cost, assuming he is 10 miles away from market, to deliver it?

Mr. SCROYER. I think some years ago we hired a truck, and it cost 6 cents then to truck it—a bushel.

Senator NORRIS. How far?

Mr. SCROYER. Six and one-half miles.

Senator NORRIS. If he was 10 miles away, it would cost more than he would be able to get out of it?

Mr. SCROYER. Yes; at the present time.

Representative RIDDICK. You say you shipped your Canadian wheat from your Canadian farm to the United States?

Mr. SCROYER. It is shipped down here.

Representative RIDDICK. What advantage does that give you?

Mr. SCROYER. I don't know; but the same as any other farmer.

Senator WADSWORTH. You can charge him the exchange?

Mr. SCROYER. Yes; but I do not get that; somebody else gets it.

Senator GORE. You say you want immediate exports; what are the difficulties about exporting farm products now?

Mr. SCROYER. Now, you mean, Senator?

Senator GORE. Yes, sir.

Mr. SCROYER. Well, I am not familiar with that.

Senator CURTIS. It is claimed by those who have written to me that it is the trouble about getting the money to handle the crop, and then the foreigner getting the money to pay for it.

Mr. SCROYER. Yes; but the question is this, Senators: Will they have the money next spring after they have got our corn? If they do not have it then we will be satisfied with these people, but we are not satisfied now, and the next time we have an election we Republicans can turn Democrats the same as we did Republicans this time.

Senator NORRIS. You will get tired flopping.

Mr. SCROYER. We have to have some diversion.

Senator CURTIS. May we find out what has become of these organizations that were authorized by law last session.

Senator NORRIS. You refer to the Federal reserve act?

Senator CURTIS. No; but the amendment to the national bank act which authorized the doing of business by these corporations with foreign Governments.

Senator HARRISON. They are organizing some of those corporations.

Senator NORRIS. I think we had better call the Secretary of the Treasury and the governor of the Federal Reserve Board to make a statement to us.

I thank you for permitting this interruption, and we will now hear Mr. Meyer further.

STATEMENT OF MR. EUGENE MEYER—Resumed.

Mr. MEYER. The figure Mr. Scroyer presented is one which is typical of what we encountered when Senator Calder, Senator Kenyon for a part of the way, and I and some other assistants recently made a trip around the country. The conditions in Cleveland and Chicago, the first places we visited, where coal and steel and iron and coke are the principal products, were not so bad—the conditions there are not so distressing. There is some unemployment in Chicago, and it is growing, but even in the last two weeks the bottom has dropped out of the iron market. And I think there will be no exception there to the blight that has been sweeping the country the past few months. I have talked to many people in the last few months, and they have generally agreed that conditions were going to be bad—but—and then they figure out that the special business they are interested in would be exempt from trouble. And in every instance these special features to be exempted have fallen to the general tendency of prices and the congestion of markets. The characteristic feature of the situation might be described as a congestion in the circulation of business, and it is spreading in all directions.

Senator Calder, the chairman of the committee, asked me to give a little impression of the trip, and I will do so.

Senator KENYON. Just the agricultural features of it.

Mr. MEYER. The grain and the corn and pork products were duplicated in the cattle situation, which we visited in Colorado. Senator Thomas is familiar with that. We have heard from other sections of the Northwest, where cattle and grain is the principal business, that we did not have a chance to visit. Senator Kellogg knows it is the same in his territory.

Coming back we stopped in Kansas City, which is the center in the Mississippi Valley of the grain and cattle business, where the banking strain has been especially acute during the last few months and where the Federal reserve bank discounts reached their highest points compared with the resources of the district. They have been getting in some money and decreasing the inflation, and they find the way to decrease inflation is to move goods. A man goes to his local bank and pays off his loan, and the bank can pay off the member bank and the member bank repays its loan from the Federal reserve bank. Hitting business over the head with a club will not

decrease inflation, no matter how much it may be advocated. It may cause senselessness, but will not cause the kind of sound liquidation which is needed now.

We went from Kansas City to St. Louis, and a number of leading men from Memphis appeared to present southern conditions. Senator Spencer sat with Senator Calder, and we heard from the men from the South concerning cotton and cottonseed oil and cottonseed cake. On account of its being a one-crop territory, if one were to discriminate between extremes of hopelessness perhaps the South has suffered more acutely than any other part of the country. I think it is not unnatural, because the South has depended upon exports more than any other activity, with the exception of the copper industry. About five-eighths of the cotton and the copper in America in the past has always gone for export.

Now, the Secretary of the Treasury, with whom I am obliged to differ, although it is unpleasant to differ with a man who has been your superior officer, is giving the total dollar values of exports as his reason for saying that there is no need for more exports, and perhaps he even intimates that there is no opportunity for additional exports. The cotton exports to Germany are 25 per cent of what they were before the war. Whatever the figures in dollars may be, the amounts are what interest the producer. The farmer does not produce dollar exports; he produces bales of cotton, and bushels of wheat, and products measured in pounds and tons. You may be misled by the dollar value of exports, and you may be misled on the total figures. The statisticians say that the volume is 25 per cent in excess of what it used to be before the war. But I have made a little compilation of the cotton situation, simply as an index. The exports from September 4 to November 27, 1920, were 1,481,450 bales—about the same as last year up to date. These 1,481,450 bales compare with the last prewar year, 1913, for the same period, when the amount was 3,837,139 bales, and the year before that it was 3,808,429 bales, and the year before that it was 3,710,514 bales, and the year before that, 1910, 10 years ago now, it was 2,915,511. These are bales of cotton, which is what they produce in the South. And if we were to go into the cottonseed meal and the cottonseed cake, the exports this year are very much less in comparison.

Now, the condition, I think, is so well understood, Mr. Chairman, that with your permission and the permission of the other gentlemen here I will not go further into them. What can be done is the interesting thing.

Senator FRANCE. You have not the figures on grain?

Mr. MEYER. I have not, but I will compile them for you.

Senator FRANCE. It would be important to have them in the record.

Mr. MEYER. I suggested to the chairman that in connection with these hearings it would be interesting to have the Chief of the Bureau of Domestic Trade and his chief statistician on the subject of foreign trade to answer any questions that the gentlemen here are interested in. I have no organization of statisticians and engineers and typewriters at my disposal, or I would be glad to furnish it.

But it was exactly such a condition as now exists in mind that the board of directors of the War Finance Corporation after the armistice made a recommendation to the Secretary of the Treasury—

Senator Glass at that time—that it would be well, in view of a possible breakdown, to give authority to assist the financing of exports. And the Ways and Means Committee of the House, and the Senate Finance Committee, to whom the matter was presented on a recommendation made by Secretary Glass, passed favorably upon the recommendation, as you all know. The amendment was passed by the Congress at the end of the session as a part of the Victory loan act of March 3, 1919, four months after the armistice. It is necessary to note the date, because in this universal desire to abolish the war activities it is well to know that this is not a war power. It was passed in view of the reconstruction necessities and has nothing whatever to do with the power under which the corporation had functioned during the war.

All the activities connected with the war were terminated on the day of the armistice so far as the loans that were used in the prosecution of the war were concerned. Not one loan was made after that except to the railroads after the appropriation failed, and we made those on the ground that demobilization was a necessary part of the military operations. They were even threatening that the railroads would cease to operate if no funds were provided, and a way was provided which seemed to meet the approval of everybody. Those loans were all repaid when the Congress passed the appropriation. We had \$1,000,000,000 given to us with unusual breadth of power. The matter was no doubt discussed by the committees in Congress that the powers were very broad. And we said they were because we did not know how or where or when we might be called upon to use them. I also said that the board has always acted judiciously and conservatively in connection with the powers conferred upon it, and we proposed to administer that power and use those recourses with that same degree of high sense of responsibility. As a matter of fact, as soon as the bill was passed a number of people thought there was some easy money to be had from the Government, and we were besieged by irresponsible applicants who could not have done much if they wanted to, and who had no adequate security to give, as required under the act. The large bankers at that time saw no need for it; the large exporters were proceeding, and exchange was still pegged by Government action, and it was only after exchange was unpegged that they began to see that this power might come in as a necessity. As a matter of fact, after March 3, after the passing of this act, the Treasury loaned to the foreign Governments \$1,400,000,000, so that the purchases that went on by the foreigners were financed to a great extent by direct Treasury aid from our Government to those Governments in purchases of goods for military purposes, but which to a great extent they were able to use in their industries after the armistice had been declared. There were still some securities being sold from the other side by investors.

After the war there was a great deal of money remitted by people in this country to their friends and families over there, and that helped our exports. Many people thought that exchange would go up in a little while, and there is a large amount of American money locked up in speculation in exchange. We brought to this country large amounts of securities of the foreign countries and towns. Switzerland and Holland and Italy and the cities of Berne, Copenhagen, an

Stockholm, and others. In that way a very large flow of our goods has been financed. There isn't any use to deny that our exports are large in dollars, but our exports are very unbalanced, and it was exactly that sort of thing that I urged upon the Secretary that he might do, when business was prosperous and there was no unemployment. I pointed out that in financing exports some commodities undesirable in America would move to Europe. There were special points where, for instance, the low grade cotton was stored, as in Memphis, to the extent of 240,000 bales. Poland and Czechoslovakia and Germany were the only countries that have bought that cotton. That did not appeal to him at the time.

We took upon ourselves the full power of discrimination in all loans: for instance, we found that the tobacco market was good last year, and we refused to finance tobacco. That was tobacco generally. A little later Senator Beckham and Mr. Byrnes came up and told us about the black patch tobacco area in Kentucky, where they grew perhaps 80 per cent of their crops for foreign country markets. There was no other market for that tobacco, and 80,000 farmers were involved, and we got the Secretary to consider that situation. I merely mention that because this organization could go on and help each case in its markets and do an immense amount of good for it.

At first, toward the end of the year 1919, a few large corporations began to sit up and take notice that they were unable to sell their products. Because of the exchange situation they could not sell for cash, and a number of corporations who could give good security came to us and we financed some farm machinery and some electrical machinery and some locomotives. I think that was all.

The problem of how to finance the export of agricultural products was more difficult, because we had to get responsible agencies, and the farmer in Kansas has not the organization which enables him by good business representation and good legal representation to get from the foreign countries the securities needed to make a good loan.

Senator NORRIS. I would like to ask you there whether it would be a practical proposition where farmers are organized like the Farmers' Union, represented by the man who preceded you, that an organization like that, representing 40,000 persons, could get assistance?

Mr. MEYER. I believe there would be a way to finance the export of farm products. I was just coming to that, Senator.

Senator NORRIS. Excuse me. Proceed.

Mr. MEYER. Both the cotton situation and the wheat situation were presented to us. We worked out a way to finance exports of cotton and wheat and condensed milk. Those are the three commodities. I want to give you a detailed concrete illustration.

Senator GORE. That is what I want to know about.

Mr. MEYER. I want to tell you all I know about it. We financed \$11,500,000 of wheat to Belgium. The Belgian Government gave its treasury certificates for that wheat to the exporters; the exporter would not be able to come to us and borrow all that money; no one concern would borrow \$11,000,000 to loan to Belgium, even if he was a large exporter. But what the exporter did was to arrange with a group of bankers, and this group of bankers took the obligation of the Belgian treasury and brought it to the War Finance Corporation and gave it their own notes, an unqualified obligation, with the security

of the Belgian Government as additional security. Gentlemen, there will not be a dollar lost on that loan.

Senator FRANCE. They were American banks?

Mr. MEYER. Oh, absolutely. We loaned only to Americans. The bill was drawn in that way, that we loan only to American exporters, or bankers, only for American products.

Representative RIDDICK. When was that loan made?

Mr. MEYER. The wheat was shipped every few months; I think the loan was made along in the spring, along in April.

Senator SWANSON. What was the length of time?

Mr. MEYER. It was payable at different dates, the Belgian treasury certificates; I think they began to mature in nine months.

Senator SWANSON. What did the \$11,000,000 average?

Mr. MEYER. I think it might have averaged 12 or 15 months.

Senator GORE. What year was that?

Mr. MEYER. This year.

Senator NORRIS. What interest did the obligation draw?

Mr. MEYER. Now, Senator, I do not want to answer that without absolute knowledge and I will answer that in the record by going to the office and asking about it. It was 6 per cent at one time, and we subsequently raised the rate to 7 per cent, or even 7½ per cent when money became tighter.

Senator HARRISON. That is a case where the Belgian Government took the paper, or indorsed the paper?

Mr. MEYER. The security was a Belgian treasury certificate. The exporters came to the corporation and borrowed the money on that security.

Senator HARRISON. What I want to know is how it can be done with Germany.

Mr. MEYER. I don't think it can be done on an entirely satisfactory scale until we have a peace resolution. That is a matter of international law. A finance corporation came to us in March, to export some goods to Germany. We expressed ourselves, as directors of the War Finance Corporation, as willing to do the business, provided it was in accordance with the policy of the United States Government. Our loans would not have been to Germany; they would have been loans to American bankers or American exporters who had seen fit to arrange for the credit, for their business.

Senator SWANSON. They were good men and absolutely responsible?

Mr. MEYER. Absolutely. One would not want to make better loans than were proposed to us. We left the responsibility for the matter to be decided as a matter of policy by the Treasury Department, as we naturally had to, under the international situation, and we never received a decision on the point, because before we received a decision we were requested to suspend all operations, and naturally that died with it.

Senator CAPPER. What date was that?

Mr. MEYER. About the middle of March was when we presented the matter.

Senator NORRIS. That is our Treasury Department asked you to suspend all operations?

Mr. MEYER. On May 10; that is, the Secretary of the Treasury requested the War Finance Corporation to suspend.

Senator NORRIS. Since that time you have done nothing?

Mr. MEYER. No new loans were made in connection with the exports, with the exception of those which were a matter of obligation at that time.

Senator NORRIS. Did that suggestion come from the corporation?

Mr. MEYER. No, sir; I opposed the request and gave reasons why I thought we should not suspend, and why, for instance, we should move low-grade cotton and copper where the mines were mining and storing up 50 per cent of their products. I am interested in that situation—in the copper situation—and wish to make that clear, as I always do when I discuss the copper industry. I am proud of having had something to do with the industry; in building it up. What I did was to tell the Secretary I thought there should be something done to ship the copper to the countries that needed it. I told him I would not vote on it or act on it, but even if I had an interest in the industry, that should not be any reason for not discussing it. I want to mention that, because I always mention it when I speak of copper, because I used to act as a banker in the development of the copper properties that furnished a necessary material that helped to win the war.

Senator HARRISON. Did the Secretary give any reason for his request to suspend business, or for not answering on the policy toward business with Germany?

Mr. MEYER. No; only at that time it seemed there was a little disturbance in Cologne. But the disturbance blew over in a few days. The matter was not pressed. The idea was—in fact, I do not mind saying that the Secretary, I think, would not disagree—that he does not conceive it to be proper for the United States Government to make advances to bankers to export to Germany while we are still at war.

Senator GORE. Let me ask you there: Under all the conditions, if it were not for the Secretary's objection, and you had the authority now that you had then, could you finance such a proposition to Germany?

Mr. MEYER. Absolutely, if there were no objection from the State Department; if it is not against the law of the United States Government.

Senator NORRIS. You would not need any law for that, would you?

Mr. MEYER. If it is legal for American business men to do business with Germany—and it seems to be, because they are doing it—if that is legal, why shouldn't it be proper for the War Finance Corporation to loan to Germany as well as to France or to any other country? I can not see any reason.

Senator NORRIS. The only reason you are not doing it is because of the action of the Secretary?

Mr. MEYER. I want it understood that I am entirely disconnected with the corporation. I resigned; there seemed to be nothing else for me to do.

Senator CAPPER. When did you resign?

Mr. MEYER. As of June 1, 1920.

Senator KENYON. Would not the "Trading with the enemy act" prevent that?

Mr. MEYER. If trading with the enemy is wrong, it should be topped. It can be done by license, Senator Kellogg says; and then say, if this finance for exports is available, it should be available for anyone that gets a license.

Representative TINCHER. At the time you were asked to suspend, what funds did the board have available?

Mr. MEYER. A paid-in capital stock of \$500,000,000, which was invested in Government bonds and Treasury certificates when it was not being otherwise needed in loans. We had engaged in loans at that time, I think, perhaps \$120,000,000 to \$140,000,000. I can not remember the figure on that date.

Representative TINCHER. Leaving \$350,000,000 available.

Mr. MEYER. We had on April 1, 1919, made an issue of two hundred millions of our own bonds; sold them to investors; sold them easily, and when we wanted to pay them back we had difficulty in getting them back. I would like to divert just at this point a minute, because the Secretary points out that the War Finance Corporation selling bonds would be a very disastrous thing, because it would compete with Treasury certificates. It is a peculiar fact, but we could not get our bonds back at the time when people would not be anxious to buy Treasury securities, and long after they were paid off and interest stopped running there were a few million held. But the War Finance Corporation can sell two hundred and fifty to five hundred million of 6 per cent notes slightly under par if they allow a selling commission to bankers and brokers, as they should.

Senator GORE. Just what date did the War Finance Corporation cease to function?

Mr. MEYER. It stopped making new advances to foreign trade May 10; some business was in process by commitment from the corporation, and that was carried out, but no new business was entertained.

Senator GORE. Could the corporation function now without a new law or resolution?

Mr. MEYER. If the Secretary of the Treasury wanted to, it could in 10 seconds.

Senator GORE. Is that so?

Mr. MEYER. Absolutely. I can give you a copy of the act here and can read you the words. It says one year after the proclamation of peace by the President. Section 21 provided that—

notwithstanding the limitation of section 1 the advances provided by this section may be made until the expiration of one year after the termination of the war between the United States and the German Government as fixed by proclamation of the President.

That is the time limit. As long as you are bringing up that point, I would like to say that on May 10, in connection with the Secretary's announcement, he intimated that this May 10 period was way beyond the intention of Congress. Let me analyze that. This act was passed March 3, 1919. The President was here, as you remember. He was about to return to Paris. It was quite clear that he could not return for some weeks, and that after his return if the treaty went through with all possible dispatch that could possibly have been, expected some time must elapse, bringing it along pretty well into the autumn, so that the year from the proclamation of peace by the President under the most optimistic expectations would

not have been May 10, 1920. It might have been before this date but of course, gentlemen, when Congress passed an act because it saw certain conditions interfering with our economic relations with Europe, and with the Central Powers, as well as the rest of Europe when it provided a special board with special resources of unusual character to assist the situation which might be distressing to our people, and made the time one year after the proclamation of peace they did not have the date in mind; it was a condition that they had in mind, the restoration of our economic relations.

Now, that date for making peace has been deferred far beyond the time contemplated by Congress. Probably, but with the deferring of the date has gone the deferring of the conditions, and the conditions were what Congress must have had in mind, as I should judge.

Of course the Secretary of the Treasury has interpreted the act to an unusual degree. I wrote this law, and when I say this, I say it, gentlemen, please understand, with no spirit of egotism, but that law was written by my direction. I named every word in it, and I did it to finance the American business, to give credit to foreign buyers taking the Government out of direct loans to foreign Governments.

So that it was a bridge to get over the interval between the direct loans of this Government to foreign Governments to the time when American business men and bankers would undertake the burden of our international economic relations, to a time that was supposed to be a date after peace was made.

Senator GORE. While we were waiting for the parachute to come down?

Mr. MEYER. Exactly. The Secretary interprets the intent of Congress. The intent of Congress is only expressed in the words of the law and the testimony of those who testified before the committee and any discussion in the Congress. The Secretary, after saying what he said about the matter, stated that Mr. Meyer would explain. I think Mr. Rathbone said a few words, and possibly Mr. Leffingwell, but I was the only witness that went into the detail of that authorization which the Senate and the House of Representatives passed with an appreciation of the conditions that might confront us.

Senator HARRISON. Did you appear before the Banking and Currency Committee of the Senate with Secretary McAdoo?

Mr. MEYER. Secretary McAdoo had nothing to do with this, because he was then no longer Secretary. He appeared regarding the original act; I did not appear. I had nothing to do with the writing of the original act, but only with the writing of the amendment to finance foreign trade. There was no reference to this in the original act.

Mr. RIDDICK. Do you suggest any amendment to this in the interest of agricultural interests?

Mr. MEYER. I would like to speak about the statement of the gentleman who referred so what I said at Kansas City. I do not believe he understood me at Kansas City. I did not mislead anybody to think that the War Finance Corporation would try to cure the world or undo the destruction of war, but it can most effectively help conditions throughout the country, including agricultural conditions. The expression of a favorable attitude on the part of the Government would in itself be a tremendous factor in restoring the confidence of the people, which is badly shaken.

Mr. TINCER. The announcement of the intention to purchase wheat did more for the wheat market than the mere purchase of \$11,000,000 worth of wheat.

Mr. MEYER. I do not think at that time it was a vital factor, because the market was fair at the time. I do not remember what the price of wheat was. We never went into the details of the prices and did not start in to regulate the business of the country through this agency. I do not understand that the Secretary of the Treasury has any authority under the law to constitute himself a regulator of prices downward or upward, although I observe he has a great deal to say on the subject. I say this with all due respect to his position. We are all in favor of deflation in an orderly way, but prices may be just as much too low as they are at other times too high.

Senator NORRIS. I think it would be a practical thing, if this War Finance Board were operating now, to look into the conditions in Germany.

Mr. MEYER. To see what business would result?

Senator NORRIS. Are the conditions there now so that a loan could be financed that would enable them to purchase from us? Would you have any funds to use?

Mr. MEYER. There is \$370,000,000 on deposit in the Treasury for the War Finance Corporation. I would not like to see that money used. The Secretary has used it already for general purposes. He canceled the War Finance Corporation's holdings of Treasury certificates. He used them to reduce the debt—which is not much of a way to reduce the debt. Provided the corporation was restored, I see no reason not to believe that with its power and an expression of attitude by the Treasury Department that it is entirely receptive to applications to finance exports for Germany or Austria or Czechoslovakia; I see no reason not to believe that a great deal of perfectly safe, sound business will not be presented to the corporation that can not now be financed.

Senator NORRIS. The only thing needed to put that in operation would be the action of the Secretary of the Treasury himself, would it not?

Mr. MEYER. Absolutely.

Mr. LAZARO. From what I can understand, then, your remedy is that the Secretary shall take action immediately, and that is the only remedy that will afford the producers relief for their products sold at these low prices?

Mr. MEYER. I will agree to discuss this proposition of the War Finance Corporation, or the whole situation, but I had confined myself to the War Finance Corporation up to the present.

Senator NORRIS. I do not like to have the witness diverted. He has not claimed that was the only remedy.

Mr. LAZARO. I was asking whether he considered that the only remedy.

Mr. MEYER. I say it would be one remedy.

Mr. LAZARO. Can you think of any other remedy?

Mr. MEYER. I prefer to answer that question later, if I may. The business we were considering at the time we suspended operation amounted to \$100,000,000. Naturally, we wanted to issue the corporation's bonds to raise the money, but there was no occasion to

do it on account of suspension. For instance, a loan of \$8,000,000 was made to a group of banks in various parts of the United States for the purpose of financing cotton exports and the banks in turn had the security of a syndicate of all the important spinners of Czechoslovakia, guaranteed by the seven largest banks in Czechoslovakia and the whole indebtedness, in turn, was guaranteed by the Government of Czechoslovakia.

Under more or less similar arrangements the War Finance Corporation financed the export of \$12,000,000 of wheat to Belgium and \$5,000,000 of condensed milk to various countries in Europe. At the time that it was requested by the Secretary to suspend financing exports it had applications involving the export of \$17,500,000 of copper, \$2,200,000 fabricated steel to Italy, \$5,000,000 "Black Patch" tobacco from Tennessee and Kentucky, \$4,000,000 cotton to Czechoslovakia for a large southern exporter, \$25,000,000 cotton to Czechoslovakia for a group of southern bankers, \$3,000,000 for cotton to Italy by a group of bankers, \$9,000,000 by a group of bankers for export of cotton to Italy, \$24,000,000 for the export of cotton by a syndicate of banks headed by one of the largest national banks in the United States, \$2,400,000 by a group of bankers for coal to Italy, \$4,000,000 by a group of bankers for cotton to Italy, \$4,000,000 for ships to be bought or constructed in this country for Italy; in all, \$100,000,000 in applications promising practical results with adequate security, according to the opinion of the directors of the War Finance Corporation.

These are not repetitions; they are separate applications, although they sound in some cases the same. In addition to these definite propositions, various other negotiations were under way for further extensive loans which no doubt would have materialized in large financing of exports of various kinds of American products.

Senator FRANCE. Were there any applications for credits for trade with Russia?

Mr. MEYER. No; I do not believe there was a concrete proposition; there had been discussion about it, but nobody ever came with a definite proposition.

Senator FRANCE. The Russians had cash?

Mr. MEYER. They had cash that was taken at Omsk, the title of which was somewhat in doubt.

The Secretary was able to enforce his views. We could not issue any bonds without his approval, because under the law he has the duty to approve the terms and prices as to the issuance of bonds. Of course, it is impractical to operate that board without it being harmonious. I do not believe we ever had a dissenting vote on any proposition, because whenever anybody dissented it was discussed and the views were reconciled, so practically every action was unanimous.

Senator KENYON. How would you get along if the board was revived?

Mr. MEYER. That is a question which this committee has to consider. I think you ought to have a frank talk with the Secretary about it and tell him how you feel, and ask him whether or not his feelings are so strong that if Congress acted in a way to renew the functions of this corporation to make it mandatory, or merely make it clear what was intended and desired, whether or not he would be

able to cooperate and in all good faith carry out the intention of Congress. I believe the Secretary of the Treasury is a loyal officer of the Government, and I can not imagine he would give you any answer except that he would cooperate. He might not feel like being responsible, and tell you that; I do not know. He is strongly opposed to it.

Mr. TINCHER. When they stopped, were the employees let out?

Mr. MEYER. Not all; there are \$130,000,000 assets that have to be cared for.

Senator FRANCE. For the sake of the record, and it is important even in the days of war to keep some semblance of the truth in our public records, it should be said that the \$20,000,000 of gold which were offered to the merchants of this country for goods which were to be shipped to Russia, was gold in the hands of representatives of the great cooperative societies of Russia, made up of the Russian peasants. That gold had been earned by those Russian peasants with the sweat of their brow from the soil of Russia and had not been taken by the Bolsheviki or anybody else at Omsk or any other place. It was money earned by the Russian farmers, just as our farmers earn it, and it was paid into the treasurers of their cooperative societies. As soon as it was refused in this country it was immediately transmitted to London and London filled their orders.

Mr. MEYER. I did not have any reference to that particular gold. The gold that I heard of was some that was shipped over and back again. That is the only gold that I ever heard of.

Senator FRANCE. I believe my information is correct.

Mr. MEYER. As to that gold I have no doubt; but there was some gold shipped over and shipped back again; but we had no concrete proposition before us at any time.

Senator KENYON. What rate of interest did you say these bonds would have to bear to sell at par?

Mr. MEYER. The War Finance Corporation bonds?

Senator KENYON. Suppose this is revived and they issue these bonds?

Mr. MEYER. I think that under present conditions the bonds would have to be at 6 per cent, and perhaps some discount in the selling price. It would depend upon the length of the bonds. Two months ago I investigated the subject and the bankers thought a two-year 6 per cent bond might be sold at 99½. Some thought a quarter per cent ought to be allowed to carry the expenses of sale and distribution.

The cotton applications before us were larger than any other, but that is very natural because cotton is the principal item of export in this country, and in presenting the matter to the Senate committee I called attention to the importance of the cotton situation to the whole country as a national proposition and not purely a local southern proposition. I stated, after giving an analysis of 83 per cent of all our exports before the war:

I believe that cotton is normally the largest single item of our exports in dollar value, but the benefit arising from the stimulation of the cotton export business is reflected in general business. Taking cotton as a foremost example, we will all recall that when cotton ceased to be exported the price fell, all of the industries which had been sellers in the South found their business cut off; there was no sale for automobiles in the

winter of 1914 in the southern territory. Pianos, shoes, furniture, all products of the North, ceased to be marketable in the South because cotton could not be sold and because prices declined.

There was no shipping of machinery from the North to the South in the winter of 1914, as the result of the cotton situation following the declaration of war.

I repeat this because of the importance that cotton is to the national economic situation, and it can not be overestimated. Industries that do not know they depend on cotton are intimately related to it.

Senator FRANCE. I was not combating anything you said in your general statement. As bearing out what Mr. Meyer has said, it might be interesting at this point to include these figures in the record of the portion Poland needs to-day, 300,000 tons of flour; 350,000 bales of cotton; \$15,000,000 worth of fertilizer and agricultural implements and other items. Those are desperate and the immediate needs.

Senator NORRIS. Those exact figures were given to me, in corroboration of what you say, by the representative of the Polish Government, and he said that they will need those articles of food commencing about the middle of January and that they can not live any longer unless they get something like that.

I wanted to ask you another question. I have been wondering if any of these organizations of producers of cotton, corn, or wheat, or live stock were willing to assume the risk of a sale of their product to purchasers in foreign countries, whether this board, through its knowledge of conditions, etc., would be able to lend them their material assistance, even though they did not become bound financially?

Mr. MEYER. Of course, you must simplify the machinery, because you can not lend to the farmer individually. Those organizations are not incorporated, and I should think that the cooperation of the banks, of the banking units in the country interested, in the South in cotton, and in the grain district the local banks that are now in touch with central banks and the Federal Reserve System could undertake a great deal of that business. For instance, in New Orleans they formed a cotton export corporation which has been created under the Edge law. At the time the Edge law was passed great hopes were held out for export financing in that direction. They formed and expected to cooperate with the War Finance Corporation. The War Finance Corporation was suspended and they have done nothing. Mr. Hecht, president of the National Bank in New Orleans, said that with a \$6,000,000 cotton corporation, even with \$6,000,000 paid in, they would be able to do relatively little in a big situation, such as the cotton situation, without the cooperation of the War Finance Corporation. With the cooperation of the War Finance Corporation, not only the banks of the big centers, but the banks of the entire country and of the smaller places would cooperate and it would involve very little expense.

In Chicago they are going about preparing for a \$100,000,000 bank. Mr. McHugh recommended the formation of that bank, and I hope a number of banks will result from the formation of that one. Mr. McHugh says it is most desirable that the War Finance Corporation should function, because he realizes that he will be able to make their corporation very much more useful in this agricultural situation.

Senator KENYON. Is anybody opposed to reviving the War Finance Board except the Secretary of the Treasury?

Mr. MEYER. Yes. I know two men in the United States, one a banker in New York, and the other in St. Louis. The New York banker says that the Government should stay out of the banking business, although his closest associate, who has studied the problem a great deal, disagrees with him. The man in St. Louis says the reason it should not be revived is because no one should embarrass the administration.

Senator KENYON. Was that before election?

Mr. MEYER. Yes; it was.

Mr. RIDDICK. I understand that if the War Finance Corporation should be revived the Secretary of the Treasury would have discretion as to approval.

Mr. MEYER. It seems to me he should have that discretion.

Mr. RIDDICK. Would not some of the big corporations get the money instead of the agricultural interests, in the event the War Finance Corporation should be revived?

Mr. MEYER. I do not believe there is any danger of that. Some manufacturing corporations came first and therefore they appear to be a little larger proportionately than you might expect, because our real production in the mass is agriculture. But it was because the machinery for the agricultural interests was slower in coming into motion, and out of the \$100,000,000 that we had definitely proposed on May 10, 1920, I think \$75,000,000 was for agricultural products.

Senator KENYON. What about the question that the gentleman from Nebraska raised, that the product from the farm would pass in a short time into the hands of private parties and be exploited by them, and it would be of no assistance to the farmer?

Mr. MEYER. I want to say this, that even if you find no way of reaching him directly, the farmer would be getting the benefit of the War Finance Corporation.

Senator KENYON. How long would it take to actually put this into operation if we started this week?

Mr. MEYER. The Secretary could do it in ten seconds, but I can not tell you how long it will take Congress to act, nor in what way they will act.

Senator KENYON. Nobody can do that. [Laughter.]

Mr. MEYER. One of the Senators was good enough to send a gentleman to see me regarding Poland, and he told me that the locomotives whose financing for export that the Secretary criticised, saved the rolling stock from the bolsheviki and enabled the Poles to get it out of the invaded territory. I think that gentleman was sent to me by Senator Curtis.

This question is going to be raised, and I would like to tell you about it—the question of inflation and deflation. I think that orderly deflation consists in helping the orderly marketing of products.

In 1914 the cotton producer was compelled to sell at a low price and the speculator who had the money picked it up and kept it until there was a demand, and without any intention to do it I am quite sure the Secretary in his policy is bringing about that situation now. Who can buy except the consumers and the people who are speculat-

ing? There is one seller, and that is the producer, and the speculator is going to take the stuff that is being forced on the market at an inordinately low price.

Mr. SUMNERS. If you find the corporation can not handle all the business of the farmers who already own these commodities and whose financial responsibility is not an element in the situation, should desire to have the good offices of this organization to help them find a market for their output, and themselves carry the debt, would you people under your present organization, or under a reasonable modification of your organization, be able to render a service along that line?

Mr. MEYER. That is a very interesting question, because I can recall to Senator Wadsworth a very interesting case bearing directly upon that subject. You remember, Senator Wadsworth, that you brought to my attention the situation of the canners in New York?

Senator WADSWORTH. I do, very well.

Mr. MEYER. The canners came down to Senator Wadsworth and he sent them to us. Five million dollars had to be raised immediately or the tomatoes and beans and fruits and vegetables grown in unusual quantity and at unusual cost in the autumn of 1918 in New York State would be lost unless means were found to finance the canners. They were small people, but they needed a great deal of money for their business under those conditions, because labor costs were high. They did not have banking facilities and it looked as though the crops were going to be lost, as people are now losing their crops.

It appeared very difficult for us to operate quickly and efficiently at first blush, but we went up to Syracuse and Buffalo, and, I think, Rochester, and investigated the situation on the spot. We worked out a scheme for a central warehousing company and got the canners to supply \$100,000 to back the warehouse up. We instituted an extremely businesslike bonded warehouse system. We made them insure their plants and have everything properly inspected. I went to Buffalo and went to one of the biggest bankers there and said, "We are troubled about the canner's situation. They need help. Local banks are too small to meet the situation. What will you do? Will you help them?"

He said, "Oh, no; we lost money on the canning business 13 years ago." I said, "Wait a minute," and I showed him the warehouse certificate and told him what we were doing. The bank said, "That is good enough for us." And we granted \$210,000, and it was all paid back in a few months.

When the sugar situation arose out in Colorado, Gov. Harding happened to be out there and we asked him to see the banks and we fixed that up out there. Many other cases we had then in mind, and I wrote to the Secretary that this was the plan in connection with the War Finance Corporation, that we were to loan the money in the manner I have described and as we had on other loans. The plan was to get the people to create paper, to create securities which would become marketable, and we would make that marketable by saying, "We will take this loan," and we did this over and over with great success."

There was \$20,000,000 required for a steel plant, and we said, "Yes, we will lend it to you, but go to the bankers and get what

you can and tell them that we will take what is left," and there was nothing left. In New York State they have a very good State law to-day. There the banks are not incorporated under the Edge law, for some reason their lawyers have in mind; I do not know what it is. If the War Finance Corporation could take over obligations to the extent they were not taken by the public generally, most all of it would go to the public. That is the reason why the corporations want it; they will do more business and they will do it at a more reasonable cost. They also want the cooperation of the War Finance Corporation in foreign trade activities, because if they finance something with a Government institution the foreign borrower has a different attitude; they will exercise a greater degree of responsibility, and of course the War Finance Corporation would study the security thoroughly.

Mr. BYRNES. There are millions of bales of cotton in the South that are laying in the open, wasting. Suppose there are a million bales of cotton in the South where the people who own cotton may carry the loan or the obligation, if we could get a million bales of cotton to move out now and the men see things beginning to move in that country, it would save the whole situation.

Mr. MEYER. That ought to be done.

Mr. BYRNES. Could your organization help move that million bales if the people in the South would take care of them and carry the obligation for a year or a year and a half?

Mr. MEYER. That is one of the situations we had in mind when we stopped, that there was a lot of cotton that was not borrowed on or to such a small extent that the cotton could be shipped and it would have been cashed in and liquidated out of the way and out of the warehouse. Of course they really do not need any financial help. I suppose the Cotton Export Corporation that is now being formed would be competent to do that. Of course they will want the best security they can get. Let me tell you what we did in Czechoslovakia in cotton financing. The exporter got a group of seven banks in Czechoslovakia. All the banks guaranteed the security of the spinners' syndicate, and then they took the Government guarantee because we wanted to get their approval, so that there would be no intervention against repayment in dollars when due.

Senator KENYON. And some of that has been paid back?

Mr. MEYER. Two million was paid back on November 1, and I think a million and a half the other day.

Senator GORE. The Cotton Export Corporation; is that the New Orleans corporation you mentioned?

Mr. MEYER. I do not know what the name of the new company is.

Mr. BYRNES. The American Cotton Export Corporation.

Senator GORE. What State is it organized in?

Mr. MEYER. They are canvassing every State in the South. It was organized in South Carolina. It is fully subscribed.

Senator WADSWORTH. In the case of the canners, as I remember, you devised a scheme by which the producers were organized?

Mr. MEYER. Yes.

Senator WADSWORTH. It is not impossible that you could go a step lower and reach the agricultural producer himself, and with the cooperation of the local banks help him devise a means of standardizing

his security, as you did in the case of the securities of the organizations in the case of the canners?

Mr. MEYER. Everything is possible, Senator, to people who want to do something. There is not any use in talking about how to do a thing you do not want to do. The first thing you need is to want to do it. This has to be done by people who see the situation in its serious nature and in its grave proportion and believe in it and want to do it. If we had wanted to we could have said to the Senator when he sent these canners to us, "But they can not give us any security," and what you would have said, Senator Wadsworth, probably, would have been "That is true; it is too bad, but that is a hardship of war."

But we wanted to do it. The first step in doing a thing is to want to do it and then you can find a way. Of course if you do not want to do it it is easy to find reasons why it can not be done.

Senator WADSWORTH. It never has been done?

Mr. MEYER. Yes. I have with me, gentlemen, thinking some of you might like to look at them, copies of the act, and I will leave those here, together with some copies of a few remarks I made at the invitation of the committee of bankers on the subject of Foreign Trade Finance and to those who have time to consider it I will be glad to furnish copies.

Mr. CAMPBELL. May I ask a question with respect to a change of the name of the corporation in case additional legislation would be desirable? Would it be desirable to change the name to the Peace Corporation?

Mr. MEYER. I think if there is a will to do the work the name would not stop it.

Mr. CAMPBELL. If there should be any objection to continuing the activities of the War Corporation, it might be called the restoration corporation, or the peace corporation?

Mr. MEYER. Yes, I think if it had the name of the restoration corporation there might be less debate on the part of Congress, but that is a matter to which I attach little importance. Congress can make its intent known by resolution. The only amendment in the machinery that appears to me to be necessary and could be very easily done, is an amendment by which the banks would be able to borrow from the corporation by simply an indorsement on an obligation instead of giving their own notes, because when they give their own obligations it means a lot of resolutions by the board of directors and considerable detail, and if they took it to the War Finance Corporation as they do their rediscounts to the Federal reserve banks, it would be very much simpler mechanically. Outside of that I see very little to change as far as the mechanism of the law is concerned. If it was desired to declare the intent of Congress it could do so by resolution. I merely offer these suggestions, having thought of them; you know very much better how to do it than I, or by changing the act so that it will state a definite date instead of one year after proclamation of peace by the President, say December 1, 1921, or such other date as the Congress might desire.

Senator NORRIS. There is one question that I would like to ask you particularly. Do you think that the law, with a Secretary of the Treasury who is not friendly to it, would be as effective as though some one were in charge of it who believed in it?

Mr. MEYER. Senator, I am not an expert on that subject. [Laughter.]

Senator NORRIS. I thought maybe you might suggest some amendment that would place it in the hands of somebody else to carry it out. You have got to leave a discretionary power.

Mr. MEYER. I am not afraid to answer any question on which I consider myself qualified by knowledge or experience, but I think perhaps that if Congress had a definite attitude on this question the best way to settle that would be in a friendly conference with the Secretary as to whether or not he desires to administer a law which he disapproves and which he might prefer not to administer; or he might very possibly and reasonably, and I can conceive that he may say, that he is there to carry out the will of Congress and do it in all good faith and do it quite as well or better than anybody else that could be chosen outside. If Congress decides that it wants the War Finance Corporation to function, I should like to see the most friendly relations between the Treasury Department and the corporation, and it is most important that it should be in harmonious administration and cooperation, because its scale of operations will be so important in the whole situation as to make it desirable to have the corporation function in entire harmony with Treasury policies.

Mr. RIDDICK. Do you not think the Secretary of the Treasury was influenced by the statements of public men that they believed that war-time legislation should be readjusted?

Mr. MEYER. I think that is not at all impossible. I may say about that, that there was quite a little sentiment in more than one quarter at the time the Secretary acted in favor of closing down the War Finance Corporation.

Mr. Forgan, a member of the advisory board of the Federal Reserve System, chairman of the First National Bank of Chicago, when I asked him if he approved of the discontinuance of the corporation, said he had advised the Secretary in accordance with the Secretary's decision. I asked him, "How do you feel about it now," and he said he did not have any feeling now. I said, "When you advised the Secretary, did you advise him for the reasons he made public, namely, that business was prosperous and unemployment negligible?" He said, "Yes." I asked him if business was prosperous now, and he said it was not, and he then admitted that he felt a change in conditions warranted a reversal in policy. The principal bankers of New Orleans declare that whatever the conditions may have been in May, the conditions now are such as to materially warrant a change in their opinion. In Omaha I consulted privately some of the principal bankers and others and they were unanimously in favor of continuing the corporation, and in every city bankers testified before the committee, and those whom we had a chance to talk to were unanimously in favor of this action.

Mr. HEFLIN. What was the attitude of Gov. Harding of the Federal Reserve Board toward closing it?

Mr. MEYER. I did not discuss it with him at the time.

Mr. HEFLIN. You know what his attitude was?

Mr. MEYER. I did not discuss it with him at the time and I have not discussed it with him since. I understand that he is in accord with the Secretary but I have no specific information; I do not know.

He was a member of our board when the recommendation was made to the Secretary for this amendment by Congress. That was the only amendment to our power that we ever asked for from Congress, and we had a great many suggestions, and we objected to everything except this big situation in foreign trade which warranted our consideration.

Senator NORRIS. Are you through?

Mr. MEYER. I am, Senator. I am very much obliged for your courtesy.

Senator NORRIS. The committee is very much obliged to you.

Senator HITCHCOCK. While you are considering this question, I want to say that I have prepared and intend to introduce a measure which is especially directed to the question of additional aid to the agricultural interests, and I think it could go forward at the same time that consideration is being given to this larger measure. The bill which I shall introduce naturally will be referred to the Committee on Banking and Currency, and I wanted to advise this committee what the general provisions of my measure will probably be.

It will provide that the profits which the Government of the United States derived from the operations of the Federal reserve banks, this year amounting to something like \$60,000,000 or \$70,000,000, shall be used by the Secretary of the Treasury to buy the debentures of the farm-loan banks, and in that way they would be in January placed in possession of some sixty million or seventy million dollars which they would under this bill be empowered to use in making loans on the security of personal property to agricultural interests, to those holding grain or other agricultural products including cotton and potatoes or live stock. These loans could be made either directly to farm associations, cooperative associations, or even to individuals, but preferably they should be made through local banks, the idea being by warehouse receipts or chattel mortgages upon cattle and hogs and sheep, which would be an adequate security for a six months' loan or a year's loan if the marketing of the cattle made that length of time necessary.

My further idea was that these small banks in agricultural regions might in some way be connected up with the farm loan banks, very much as commercial banks are connected up with the Federal reserve banks; that is to say, the farm-loan banks could be financed in part by the Treasury by using the profits of the Federal reserve banks, and also be financed by having small banks in the country either keep deposits in the farm-loan banks or purchase a limited amount of their debentures, so that in that way additional funds would be supplied. The Government would receive from this money 5 or 6 per cent interest, this money, which is not derived by taxation, but has been derived by the very profitable operation of the Federal reserve banks.

I realize that this involves an amount of money which is rather small, but I think it is a step in the direction of bringing the needed relief to the agricultural classes, and, as Mr. Meyer suggests, the psychological effect would be good because it would show the agricultural classes and investors generally that a method had been found of bringing additional credit to the agricultural interests. I believe that it is better for the country to have the producer financed than to have the middleman financed. If farmers are compelled to dump

their whole crop on the market, the product of a whole year's work, they necessarily have to get a very low price for it, and that encourages the middleman to carry those crops and get them at an insignificant price and sell them ultimately to the consumers at a high rate, and the carrying of the crops costs no more when they are carried in the hands of the producers than when they are in the hands of the middlemen.

So, I believe that one of the problems before the country is to give to the farming classes, the agricultural classes, a larger degree of credit than they have ever had before, not for the purpose of exacting exorbitant prices for their products, but in order to enable them to market them readily. The manufacturer markets his goods gradually during the year as he makes them, and there is no reason why the farmer should not be allowed to do so, and, on the other hand, it is one of the duties of the Government to assist in affording this facility.

While my bill can not be referred to this committee, I would like to have it sympathetically considered by members of the committee, and have suggestions from the members of the committee while I am perfecting its preparation. I believe I can say that members of the Federal Reserve Board would not resist this plan of using this money which is derived in an unexpectedly large sum by the operation of the banks. They would not object to it because the matter would be handled by the Federal reserve banks.

Senator KENYON. Was it expected the Federal reserve banks should make these large sums of money they have made?

Senator HITCHCOCK. No. It was generally the prediction before our committee that if the Federal reserve act was passed American bankers would not adopt a plan which involved a rediscounting of notes which they held in their banks, and prior to the enactment of the Federal reserve law the highest amount of rediscounts at any one time in the country was only 2 per cent of the total loans, and that per cent has steadily risen since the Federal reserve system went into operation, until at the present time the members of the Federal reserve system were loaning much more than they ever loaned before, and at the present time they have rediscounted 16 per cent of all their notes, so that the profits of the Federal reserve banks have been very much larger than they were ever expected to be.

Mr. CAMPBELL. May I suggest, in connection with your proposition that the Wheat Corporation claimed a profit of something over a hundred million dollars out of wheat that they bought from the farmers. Would it not be a good idea to use that hundred million in the interest of the restoration of the farmers' business at this time?

Senator HITCHCOCK. I suppose that was turned into the Treasury and has been used for Treasury purposes at this time. My plan involves taking no money out of the Treasury at the present time. It involves using the money which the Treasury would use next year for the purpose of expanding credit, which the Federal reserve system is hardly able to expand at this time apparently. There has been an enormous expansion of credit in the Federal reserve system. It is eleven thousand million dollars more than it was before the establishment of the Federal reserve banks. At the present time the Federal reserve system has something like three thousand million dollars of credit which it has afforded the member banks, and, strange enough, the greatest expansion has occurred in the agricultural

regions. In Nebraska we come under the Kansas City district, and the Kansas City reserve bank, if it had not been able to rediscount paper with the Cleveland bank and the Philadelphia bank, would be very far below the limit of the law at the present time; that is, its reserve would be.

I might say that this plan of Mr. Meyer's for the revival of the War Finance Corporation might work in with this plan I suggest. The War Finance Corporation might find it possible to purchase the debentures of these farm loan banks and thus enable the farm-loan banks to deal directly with the agricultural interests.

Senator GORE. Are those bonds being sold pending the decision of the Supreme Court?

Senator HITCHCOCK. No. The Treasury has been compelled to take all of the farm-loan bonds that have been issued, and the Treasury has only taken enough bonds to enable the farm-loan banks to fulfill commitments which they had made before the case in the Supreme Court put a stop to their operations. Of course, the Treasury has those bonds on hand at the present time.

Mr. TINCHER. Would the bill contemplate amendment of the farm-loan law?

Senator HITCHCOCK. It necessitates the amendment both of the Federal farm-loan act and the Federal reserve act. The Federal reserve act would be very simply amended. It provides that the Secretary of the Treasury shall take the profits which are received in this way and use them either for the protection of the gold reserve and national bank notes or to reduce the national debt. This would give him the additional option of using them for the purpose of purchasing the debentures of the farm-loan banks.

Mr. TINCHER. Then you would have to amend the farm-loan law to cover real estate loans?

Senator HITCHCOCK. I have already made provisions for that amendment.

I simply wanted the members of this committee to have this information before them so that they would know what I was going to do.

The CHAIRMAN. We will now hear Mr. Brauer.

STATEMENT OF MR. WILLIAM WALLACE BRAUER, NEW YORK CITY.

Mr. BRAUER. Gentlemen of the committee, it is my duty to inform you of the following fact: That a syndicate of bankers has already been formed for the purpose of introducing a bill in Congress at this session, which bill provides that the United States Government shall deliver to this syndicate of bankers the property of the German Government and its nationals now in custody of the Alien Property Custodian. The amount of this property is estimated to be about \$500,000,000, and these bankers propose to use these German funds, which are held in trust by the American Government, as a basis to form a private company of \$5,000,000,000 under the Edge Act, and to supply all European countries, using as a basis the money which belongs to Germany, which appears to be against all laws and all morals, and the syndicate proposes to secure this five billion from the American people.

Senator FRANCE. What would that be expended for; foodstuffs?

Mr. BRAUER. Yes; foodstuffs and raw materials and cotton and grain.

Mr. HEFLIN. I understand that Germany wants 2,000,000 bales of cotton.

Mr. BRAUER. They want cotton and wool and food stuffs.

The economic and financial condition of affairs in this country at this time is very serious, and we believe that if our Congress passed a law granting this syndicate of bankers to do as they plan to do in this situation, that either business will not be done or every dollar of this five billion will be jeopardized and the confidence of our people in our Government may be seriously affected.

I make this statement because our American bankers and merchants here at this present time have outstanding in Europe and hold the obligations of Europeans of \$4,000,000,000 so we are informed, and they claim they can not loan Europe any more of their money, consequently they now desire to gamble with the German funds, and before further credits to Europe are extended the following things should be done if Congress desires to protect the interests of American people:

First, central Europe must be vitalized and stabilized, which can only be done by making Germany economically sound and in position to meet her obligations, as Germany is the key to the central European situation. Secondly, no money should be loaned to any European country by Government banks or war finance corporations until the German indemnity is fixed, and such loans as may be required by the German Government to stabilize Germany must carry with it the priority of all allied reparation claims, and the German Government must secure such priority from the Allies, stating that such priority is for a specific loan, and the American Government must be notified to this effect by the Allies.

To make a long story short, neither the War Finance Corporation nor private companies, nor bankers, nor bankers' syndicates can furnish central Europe with food, raw materials, or money, unless they have the direct obligation of the Allies that such credit or loans to Germany, based on a contract direct from the German Government, take priority over all allied reparation claims, and the amount of indemnity that Germany is to pay the Allies is definitely fixed.

Furthermore, we do not believe that it is within the jurisdiction of the United States Government to deliver moneys which they hold in trust for Germany and its nationalists to a syndicate of bankers for speculative purposes, and to use this German money to supply European countries other than Germany, and every dollar of this money will be jeopardized unless the program as outlined above is adhered to literally.

We are confronted with difficulties in this country, but America must fix the basis for selling to Europe on sound and safe business principles before Congress should consent to permitting food and raw materials to be sent to Europe, which can be done as outlined above.

We are confronted with the following conditions:

regions. In Nebraska we come under the Kansas City district, and the Kansas City reserve bank, if it had not been able to rediscount paper with the Cleveland bank and the Philadelphia bank, would be very far below the limit of the law at the present time; that is, its reserve would be.

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Senator GORE. Are those bonds being sold pending the decision of the Supreme Court?

Senator HITCHCOCK. No. The Treasury has been compelled to take all of the farm-loan bonds that have been issued, and the Treasury has only taken enough bonds to enable the farm-loan banks to fulfill commitments which they had made before the case in the Supreme Court put a stop to their operations. Of course, the Treasury has those bonds on hand at the present time.

Mr. TINCHER. Would the bill contemplate amendment of the farm-loan law?

Senator HITCHCOCK. It necessitates the amendment both of the Federal farm-loan act and the Federal reserve act. The Federal reserve act would be very simply amended. It provides that the Secretary of the Treasury shall take the profits which are received in this way and use them either for the protection of the gold reserve and national bank notes or to reduce the national debt. This would give him the additional option of using them for the purpose of purchasing the debentures of the farm-loan banks.

Mr. TINCHER. Then you would have to amend the farm-loan law to cover real estate loans?

Senator HITCHCOCK. I have already made provisions for that amendment.

I simply wanted the members of this committee to have this information before them so that they would know what I was going to do.

The CHAIRMAN. We will now hear Mr. Brauer.

STATEMENT OF MR. WILLIAM WALLACE BRAUER, NEW YORK CITY.

Mr. BRAUER. Gentlemen of the committee, it is my duty to inform you of the following fact: That a syndicate of bankers has already been formed for the purpose of introducing a bill in Congress at this session, which bill provides that the United States Government shall deliver to this syndicate of bankers the property of the German Government and its nationals now in custody of the Alien Property Custodian. The amount of this property is estimated to be about \$500,000,000, and these bankers propose to use these German funds, which are held in trust by the American Government, as a basis to form a private company of \$5,000,000,000 under the Edge Act, and to supply all European countries, using as a basis the money which belongs to Germany, which appears to be against all laws and all morals, and the syndicate proposes to secure this five billion from the American people.

Senator FRANCE. What would that be expended for; foodstuffs?

Mr. BRAUER. Yes; foodstuffs and raw materials and cotton and grain.

Mr. HEFLIN. I understand that Germany wants 2,000,000 bales of cotton.

Mr. BRAUER. They want cotton and wool and food stuffs.

The economic and financial condition of affairs in this country at this time is very serious, and we believe that if our Congress passed a law granting this syndicate of bankers to do as they plan to do in this situation, that either business will not be done or every dollar of this five billion will be jeopardized and the confidence of our people in our Government may be seriously affected.

I make this statement because our American bankers and merchants here at this present time have outstanding in Europe and hold the obligations of Europeans of \$4,000,000,000 so we are informed, and they claim they can not loan Europe any more of their money, consequently they now desire to gamble with the German funds, and before further credits to Europe are extended the following things should be done if Congress desires to protect the interests of American people:

First, central Europe must be vitalized and stabilized, which can only be done by making Germany economically sound and in position to meet her obligations, as Germany is the key to the central European situation. Secondly, no money should be loaned to any European country by Government banks or war finance corporations until the German indemnity is fixed, and such loans as may be required by the German Government to stabilize Germany must carry with it the priority of all allied reparation claims, and the German Government must secure such priority from the Allies, stating that such priority is for a specific loan, and the American Government must be notified to this effect by the Allies.

To make a long story short, neither the War Finance Corporation nor private companies, nor bankers, nor bankers' syndicates can furnish central Europe with food, raw materials, or money, unless they have the direct obligation of the Allies that such credit or loans to Germany, based on a contract direct from the German Government, take priority over all allied reparation claims, and the amount of indemnity that Germany is to pay the Allies is definitely fixed.

Furthermore, we do not believe that it is within the jurisdiction of the United States Government to deliver moneys which they hold in trust for Germany and its nationalists to a syndicate of bankers for speculative purposes, and to use this German money to supply European countries other than Germany, and every dollar of this money will be jeopardized unless the program as outlined above is adhered to literally.

We are confronted with difficulties in this country, but America must fix the basis for selling to Europe on sound and safe business principles before Congress should consent to permitting food and raw materials to be sent to Europe, which can be done as outlined above.

We are confronted with the following conditions:

Our farmers have a surplus of food and raw material which Germany can buy and the German Government has authorized me to negotiate a credit for it of \$1,000,000,000, all of which money will be spent in America for food and raw material, and the German Government has instructed me to fix this credit only on condition that it takes priority over all allied reparation claims. And it is further agreed that the indemnity that the Germans must pay to the Allies must be definitely fixed. This makes a safe transaction, and provided Congress passes this bill in the early days of December we can begin buying and shipping out of the United States our farmers' surplus products before the end of December.

Congress may provide that this \$1,000,000,000 credit to Germany is to have as collateral security the money belonging to the German Government, and the German nationalists, now held by the Allied Property Custodian. This amount is estimated at \$500,000,000 together with an estimated amount of \$226,000,000 that America owes Germany for ships seized during the war which make a perfectly safe business transaction, and we hope that Congress will grant this \$1,000,000,000 credit to the German Government as soon as it convenes, thus opening an immediate and permanent market for our farmers' surplus products.

Unless some one desires to ask any questions that is all I have to say.

Senator NORRIS. I think without objection we will adjourn until 10.30 o'clock to-morrow.

(Thereupon at 4.45 o'clock p. m. the committee adjourned until to-morrow, Friday, December 3, 1920, at 10.30 o'clock a. m.)

REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

FRIDAY, DECEMBER 3, 1920.

JOINT SESSION OF THE SENATE AND HOUSE COMMITTEES ON AGRICULTURE, *Washington, D. C.*

The Committee on Agriculture and Forestry of the United States Senate and the Committee on Agriculture of the House of Representatives reconvened, pursuant to adjournment, at 10.30 a. m. in the room of the Senate Committee on Agriculture and Forestry, Senator George W. Norris presiding.

Present: Senators Norris, Wadsworth, McNary, Capper, Gore, Kendrick, and Harrison, and Representatives Tincher, of Kansas; Paul W. Riddick, of Montana; and J. Thomas Heflin, of Alabama.

Also present: Senators Sterling, Kellogg, Henderson; Representative Riley J. Wilson; Hon. David F. Houston, Secretary of the Treasury; Hon. William P. G. Harding, governor Federal Reserve Board; and others.

Senator NORRIS. Mr. Secretary, we have been having some hearings here on the condition of the agricultural part of the country and trying to devise some plan of relief, if possible. We have asked you to come and give us your ideas as to the conditions, whether relief can be extended, and if so, how. We will be glad to have you go ahead in your own way.

STATEMENT OF HON. DAVID F. HOUSTON, SECRETARY OF THE TREASURY.

Secretary HOUSTON. Have you any specific proposal, Senator, which you wish me to discuss?

Senator NORRIS. No; but, I take it, that is the principal object that the committee has in view, to get proposals. We have not any specific thing before us. The investigation is as wide as it is possible to be. We are anxious to get if we can any proposal for consideration that would give relief to the agricultural part of the country.

Secretary HOUSTON. I have perhaps given more thought to this situation, Senator, in the last two months than to any other which has come before the Treasury, and I have to say that I know of no solution for the problem presented by falling prices.

I suppose that it was apparent several years that the process of the upward movement of prices would end sometime, and that there would be after a certain interval a recession of prices. I was apprehensive, rather I was convinced, that that would be the case, and I expressed that view immediately after the armistice. The armistice came on November 11, 1918, and shortly thereafter there were conferences held, so-called reconstruction conferences, which had as their

object to see what could be done to facilitate the transition. I recall that, at one of these large conferences when the high cost of living was under discussion and the question of the discontent of the people over high prices was the subject of consideration, certain business men said they could not reduce their prices unless costs fell, and that costs would not fall unless more commodities were produced, and some said that the prime necessity was the increased production of food products.

I remember saying at that meeting that it seemed to me a very beautiful program for some people, but that I thought the suggestion would not appeal very much to the farmers, that everybody else waits for prices to fall, until the farmers produced more, with the implied assurance that when they did this, their prices would fall. I added that I, as Secretary of Agriculture, could not go before the farmers urging any such program; that I thought, if they apprehended a fall of prices, they had better begin to take their loss and begin to lower the prices of their products, since their turnover was frequent and the farmers' turnover was annual, and enable the farmer to buy commodities at a lower rate so that his cost would not be so high, so that he would not be so heavily burdened, if what they asserted was necessary and what they apprehended as possible happened.

Following this, the Department of Agriculture made statements giving its suggestions as to what it thought might be the course of events, and making suggestions to farmers accordingly. I remember that, on the 8th of January, I made a public statement in which I said that in view of the fact that the fighting had ceased, that the thirty or forty millions of men who had been engaged in the work of destruction in Europe would return to work, that the first thing that they would try to do would be to find a larger food supply at home; and, furthermore, that shipping would open up, that distant countries like Australia and Argentina would come back into the market of the world, having been shut off for three years or more. I apprehended that there would after a certain interval, how long I could not say, be a tendency for prices to fall; and that, with this possibility in view, I advised farmers carefully to consider their program, to return to a balanced agricultural program, to pursue practices best suited to their individual and community needs, and to make themselves self-sustaining as far as possible. I continued to do this through the year, 1919, both in official announcements and in statements I made to the public. One or two crop years have intervened since. Now, I was not attempting to pose as a prophet, but I was trying to outline the possible developments as I saw them; and in no small measure developments have followed this course.

Europe has made progress. Her people have turned their attention to the production of commodities, and they have succeeded in a measure, as is indicated by their increasing exports; and certain countries, France, for instance, will be this year very much more largely self-sufficient, very nearly self-sufficient in respect to a number of food commodities. Even Germany has been at work trying to produce commodities, and has succeeded in a measurable degree. The same thing is true as to some of the other countries of Europe; and the distant countries have come back into the market.

In the course of this year, beginning in the spring, the pressure from consumers began to be felt in industry. Buyers and consumers apparently began to order less. This was reflected in smaller orders the manufacturers received. They began to slow down their production. Some of them closed temporarily. Others went on part time, and there was a tendency later for manufacturing and wholesale prices to drop; but this has not yet been very largely reflected in retail prices. I suppose the retailers, being human, have attempted to maintain their prices and to get rid of their products purchased on the former basis, at as high prices as possible. How long they will be able to persist, I do not know, but I imagine not very much longer.

With the coming on of the crops of this year, with favorable weather resulting in one of the record harvests of the nation, the prices of farm products began to drop, and unfortunately dropped very quickly and very suddenly. I do not know any feasible means of effecting what I suppose many producers desire, namely, to be enabled in some way to receive higher prices for what they produce. I assume that the decline of price is the thing which has brought about the situation you are considering. I especially do not know of any feasible means which the Treasury could adopt to furnish substantial relief which might not set up worse evils than the present evils. The matter, as I said at the outset, has been receiving our constant attention.

I do not desire to speak of the banking phase of this matter, but I may say that the disposition of the authorities, the supervising authorities, has been to do everything possible consistent with safety to promote orderly marketing of all commodities. I may add that the facts show that during the year there has been a large increase in accommodations by the banks of the country to agriculture, industry, and commerce. They show that there has been a very marked reduction of loans for speculative purposes. As I recall it the figures show a decline in such loans of about a billion dollars; and through the shifting of loans, an increase in accommodations for agriculture, industry, and commerce, of between three and four billions of dollars.

The much talked of deflation or contraction of credits does not exist, and has not existed. The reverse has been true; and, of course, there are limits beyond which banks can not go with safety.

I may point out also in this connection that so far as the foreign outlet for commodities is concerned, we have the facts before us indicating a very great increase in the value of exports since the armistice. While our prewar exports, those for the year preceding the war, were two and three-tenths billions of dollars, and while during the last year of the war, owing in no small measure to the exports of commodities for military purposes, financed in part through credits extended by the Government to European Governments, they ran up to six billions, in round numbers; last year, 1919, they were seven and nine-tenths billions, slightly over 50 per cent of which were agricultural; and this year they are running at the rate of eight and one-tenth billions. After deducting the imports of physical commodities, making allowances for the offset in the way of services rendered by other countries in shipping and of expenditures abroad by tourists, and perhaps of some further return of

securities, there is at present an estimated suspended commercial indebtedness of Europe to this country of about four billions of dollars in addition to the ten billions which this Government lent to certain European Governments. How they are going to pay for the increasing exports and discharge the balance already against them, I am not fully informed. Nor do I know how they can take very much larger values and find the means of payment except through increasing exports. The European countries which we imagine are in greatest need are the very ones which are finding difficulty in discovering either gold for payment, or means of production through which they could export larger quantities of commodities, or securities which a business man would accept.

Senator NORRIS. I think, Mr. Secretary, that one of the questions that has been agitated as much as any other on that point you are now discussing is to find if possible a way to finance those Governments or their people, so they could take more of our agricultural exports. Do you know of any way in which that could be done?

Secretary HOUSTON. I have not been able to work out any.

Senator NORRIS. Do you think rehabilitation of the War Finance Board might help in that direction?

Secretary HOUSTON. I have grave doubts about it, Senator. As Members of the Senate and House recall, the act creating the War Finance Corporation was passed during the war. I think it was approved in April, 1918. It is entitled "An act to provide for the national security and defense and for the purpose of assisting in the prosecution of the war, to provide credits for industries, etc." It was intended as an emergency measure. It was one of the war measures passed to prosecute the war to a successful conclusion.

Senator KENDRICK. May I ask, Mr. Secretary, if the amendment—

Secretary HOUSTON. I am coming to that, if you will pardon me. Of course, the war was prosecuted to a successful conclusion, and those powers that had a specific war purpose I assume expired with the armistice. I refer to the provisions which in practically every case specifically indicate that the aid is to be general for the purpose of successfully prosecuting the war.

After the armistice, I think it was in the winter of 1919, in view of possible interruptions of foreign trade growing out of the cessation of exports for military purposes and the discontinuance of new credits to European governments, the Congress inserted an amendment authorizing the War Finance Corporation to aid, under certain conditions, exporters who could not otherwise get the money to finance exports. Now, as a matter of fact, foreign trade did not fall off, did not stop, but increased by nearly two billions of dollars that year over the year preceding the action. And, as I said a moment ago, it has continued this year at a greater rate. The exports for the first 10 months of this year are in round numbers six and eight-tenths billions; and if they go forward at the same rate this month, they will show a larger total than last year.

Senator NORRIS. How would it be in volume? You are speaking always in values.

Secretary HOUSTON. In physical volume it is difficult to estimate the increase. There have been several studies made. The experts

of the Federal Reserve Board made a partial study some months ago, and the bureau of research of one of our universities has made a somewhat more extended study. I should say, roughly speaking, that adjusting the values to prewar values, and therefore trying to arrive at a comparable basis, the physical increase would probably not be over 33 or 35 per cent.

Senator GORE. What university made the study?

Secretary HOUSTON. Harvard.

Senator GORE. Have they printed that report?

Secretary HOUSTON. I think they have. I think it has been printed in several places. Gov. Harding, do you know where this report was printed?

Gov. HARDING. I have a copy on file.

Secretary HOUSTON. Now, it was apparent, as I say, that exports were not only not falling off, but that they were increasing, and that they were being financed and are being financed in the ordinary commercial way, although, as I say, just how part of them are being carried I am not intimately informed.

I may say, before I go further, that there was a general expectation that all these special war acts would be terminated before the expiration of more than two years after the armistice; and there was, as gentlemen will recall, a very marked expression of view that they should terminate; but, however that may be, in view of the fact that the exports were increasing and were being privately financed, that people were finding ways of a commercial sort to finance these exports, we suspended activities last spring. Up to that time, the extensions of credit which were made under this particular section, which is the only one in question, were to the very agencies which could get means to finance exports, if any bodies could get them. Of the forty-six millions of dollars extended under this export amendment, under this power I am discussing, roughly speaking, 50 per cent, over \$20,000,000, was loaned such companies as the General Electric, the Baldwin Locomotive, and the Harvester Co. My present impression is that if we were to announce to-morrow that activities would be resumed, the main beneficiaries would be the very corporations which can more easily than others get money in ordinary commercial ways, and that the very people who are expecting and who desire aid would be disappointed.

We can not lend to producers. We can only lend to people engaged in the business of exports. I think the chief result would be that the businesses of the country which are now securing funds in commercial ways at the market rate would simply transfer their attention to the Treasury to get the benefit of the Government's credit. I apprehend that there would probably be no marked increase in the volume of exports, but rather simply a shifting of the financing of them from the ordinary banking channels of the country to the Government of the United States, through the Treasury or the Finance Corporation. Of course, that corporation means the Government; and I assume I need scarcely emphasize the point that the corporation would have to borrow the money at a time when the Government already is compelled to borrow very large sums to meet bills in the intervals of tax payments; and if it happened now, at a time when it has to borrow large sums. The Treasury

will have to borrow, for instance, by the 15th of this month, something over a half billion of dollars. Of course, there will be a cancellation of certificates outstanding, and the net indebtedness of the Government will not increase, but still the Treasury will have to go into the market to borrow money and it will get it probably from the very same people whose funds would otherwise be used. Furthermore, I think in time of peace, it is undesirable for the Government to continue in the banking business in paralleling or duplicating the ordinary banking institutions of the Nation. It becomes in very effective ways the competitor of those institutions; and I think it undesirable to resume this function. If it does, it will be for a very considerable period, because the corporation will be compelled to exist for a number of years, certainly for the period for which the loans would be outstanding.

I think, taking the situation as a whole, that, if Europe demands more exports from us and can find money, goods, or securities to pay for them, we had better continue to rely on the agencies that are now financing exports at the rate of 8 billions, and supplement them by institutions that are beginning to be formed, and which can be formed in larger measure, under the law already on the statute books, namely, the Edge Act. There has been or is being formed in the South an export corporation with, I believe, an ultimate capital of \$12,000,000; and they are about to hold a meeting in Chicago to form a \$100,000,000 corporation; and there has been recently formed a cattle pool of \$22,000,000.

Senator NORRIS. Mr. Secretary, how do they propose to get their money?

Secretary HOUSTON. The money is being subscribed by associations, largely banking associations, throughout the country; and I imagine that one reason why rather more progress has not been made is the expectation held out that the Government would do the business, which I think has been unfortunate.

Senator NORRIS. Well, assuming that it would be desirable, just for the sake of argument, to have the War Corporation Board rehabilitated, would any legislation be necessary?

Secretary HOUSTON. No legislation would be necessary unless you should wish to restrict loans to more specific purposes. As the law now stands I assume as a matter of equality before the law, the corporation would have to consider proposals coming within the law from any source.

Senator WADSWORTH. Mr. Secretary, the finance corporation would not be compelled to accept a class of business, would it? Isn't it left entirely to its discretion?

Secretary HOUSTON. It would be very difficult for the Government to discriminate as among individuals who present proposals for exports and good security. I know no way of discriminating on the basis of class.

Senator WADSWORTH. Well, I thought the Government represented by the finance corporation would lay out whatever policy it thought fit or best at the time.

Secretary HOUSTON. Not under the amendment which authorizes loans to any person who complies with the requirements. There is only one limitation—the exporter must be unable to get funds from banks on reasonable terms.

Senator NORRIS. Well, the law in every case gives to the board discretion to refuse any loans, does it not?

Secretary HOUSTON. It does as to terms; but I imagine that any gentleman would find it difficult to refuse loans on the basis of the class of products to exporters. the amendment refers to "domestic products."

Senator GORE. But if it was classified on the basis of those who could not finance themselves from private sources?

Secretary HOUSTON. The amendment does impose that limitation. You understand, Senator, the law says that these loans shall be made to persons engaged in the business of export, not in that of producing alone.

Senator GORE. That I understand. I thought you would classify those who could easily obtain credit, such as the General Electric, who would not come within the law and that could provide themselves from private sources, and those who could not easily provide themselves from private sources yet had solid securities, would be eligible. It seems to me that would be the basis of the classification.

Senator NORRIS. Well, would it be a practicable proposition to change the law, even on your theory there, and confine operations for the time being—

Secretary HOUSTON. That is a matter of policy that Congress would have to determine.

Senator NORRIS. I know. I would like to get your idea on that. Do you think that would be a practicable way of reaching part of this difficulty?

Secretary HOUSTON. I should hesitate to pass a law for citizens producing one class of commodities.

Senator WADSWORTH. Do you think the passage of a law to encourage exportations is a passage of a law in favor of one class of citizens? Does it not affect everybody?

Secretary HOUSTON. If it is to promote financing of only one class of commodities I should imagine it would be so regarded.

Senator WADSWORTH. Well, I doubt if exportation can be called one class of commodities.

Secretary HOUSTON. If you limit it to the products of one class it could be, could it not?

Senator WADSWORTH. Merely because the commodities are exported does not mean they are one class of commodities, because everything is liable to export, everything made or grown.

Secretary HOUSTON. Yes. What would you do with an export corporation that wished to finance something other than agricultural products?

Senator WADSWORTH. I have not suggested we confine it to agricultural products. That, of course, would be class legislation.

Senator NORRIS. I was just about to ask when Senator Wadsworth interrupted whether in your judgment Congress could aid in any way, to assist these other export corporations that you say are now being organized? Is there legislation that would help that we could pass?

Secretary HOUSTON. The only way you can do it is to make an appropriation of funds which the Government would have to borrow probably from the same people whose resources would be used through commercial channels in supporting these private enterprises, and add,

regions. In Nebraska we come under the Kansas City district, and the Kansas City reserve bank, if it had not been able to rediscount paper with the Cleveland bank and the Philadelphia bank, would be very far below the limit of the law at the present time; that is, its reserve would be.

I might say that this plan of Mr. Meyer's for the revival of the War Finance Corporation might work in with this plan I suggest. The War Finance Corporation might find it possible to purchase the debentures of these farm loan banks and thus enable the farm-loan banks to deal directly with the agricultural interests.

Senator GORE. Are those bonds being sold pending the decision of the Supreme Court?

Senator HITCHCOCK. No. The Treasury has been compelled to take all of the farm-loan bonds that have been issued, and the Treasury has only taken enough bonds to enable the farm-loan banks to fulfill commitments which they had made before the case in the Supreme Court put a stop to their operations. Of course, the Treasury has those bonds on hand at the present time.

Mr. TINCHER. Would the bill contemplate amendment of the farm-loan law?

Senator HITCHCOCK. It necessitates the amendment both of the Federal farm-loan act and the Federal reserve act. The Federal reserve act would be very simply amended. It provides that the Secretary of the Treasury shall take the profits which are received in this way and use them either for the protection of the gold reserve and national bank notes or to reduce the national debt. This would give him the additional option of using them for the purpose of purchasing the debentures of the farm-loan banks.

Mr. TINCHER. Then you would have to amend the farm-loan law to cover real estate loans?

Senator HITCHCOCK. I have already made provisions for that amendment.

I simply wanted the members of this committee to have this information before them so that they would know what I was going to do.

The CHAIRMAN. We will now hear Mr. Brauer.

STATEMENT OF MR. WILLIAM WALLACE BRAUER, NEW YORK CITY.

Mr. BRAUER. Gentlemen of the committee, it is my duty to inform you of the following fact: That a syndicate of bankers has already been formed for the purpose of introducing a bill in Congress at this session, which bill provides that the United States Government shall deliver to this syndicate of bankers the property of the German Government and its nationals now in custody of the Alien Property Custodian. The amount of this property is estimated to be about \$500,000,000, and these bankers propose to use these German funds, which are held in trust by the American Government, as a basis to form a private company of \$5,000,000,000 under the Edge Act, and to supply all European countries, using as a basis the money which belongs to Germany, which appears to be against all laws and all morals, and the syndicate proposes to secure this five billion from the American people.

Senator FRANCE. What would that be expended for; foodstuffs?

Mr. BRAUER. Yes; foodstuffs and raw materials and cotton and grain.

Mr. HEFLIN. I understand that Germany wants 2,000,000 bales of cotton.

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The economic and financial condition of affairs in this country at this time is very serious, and we believe that if our Congress passed a law granting this syndicate of bankers to do as they plan to do in this situation, that either business will not be done or every dollar of this five billion will be jeopardized and the confidence of our people in our Government may be seriously affected.

I make this statement because our American bankers and merchants here at this present time have outstanding in Europe and hold the obligations of Europeans of \$4,000,000,000 so we are informed, and they claim they can not loan Europe any more of their money, consequently they now desire to gamble with the German funds, and before further credits to Europe are extended the following things should be done if Congress desires to protect the interests of American people:

First, central Europe must be vitalized and stabilized, which can only be done by making Germany economically sound and in position to meet her obligations, as Germany is the key to the central European situation. Secondly, no money should be loaned to any European country by Government banks or war finance corporations until the German indemnity is fixed, and such loans as may be required by the German Government to stabilize Germany must carry with it the priority of all allied reparation claims, and the German Government must secure such priority from the Allies, stating that such priority is for a specific loan, and the American Government must be notified to this effect by the Allies.

To make a long story short, neither the War Finance Corporation nor private companies, nor bankers, nor bankers' syndicates can furnish central Europe with food, raw materials, or money, unless they have the direct obligation of the Allies that such credit or loans to Germany, based on a contract direct from the German Government, take priority over all allied reparation claims, and the amount of indemnity that Germany is to pay the Allies is definitely fixed.

Furthermore, we do not believe that it is within the jurisdiction of the United States Government to deliver moneys which they hold in trust for Germany and its nationalists to a syndicate of bankers for speculative purposes, and to use this German money to supply European countries other than Germany, and every dollar of this money will be jeopardized unless the program as outlined above is adhered to literally.

We are confronted with difficulties in this country, but America must fix the basis for selling to Europe on sound and safe business principles before Congress should consent to permitting food and raw materials to be sent to Europe, which can be done as outlined above.

We are confronted with the following conditions:

could have paid more; that consequently the Allies would be out that much. One of the Allies is insistent on this, that as soon as Germany does begin to produce in larger measure and goods are available she shall immediately have the first fruits of it, because her fiscal system is in bad shape. She has a very considerable estimated deficit, and naturally she wants the indemnity to help make up the deficit and also to help in her other undertakings. But even assuming that this is settled, it is going to take Germany a very long time, I imagine, to even approximate a partially normal productive state.

Senator NORRIS. Mr. Secretary, I had it suggested to me—I have no evidence of it except the suggestion that has been made—that one of the troubles is that foreign buyers of American food products are confined to people who represent the Government themselves: that individuals are not buying; that the various Governments are buying; and that therefore they are able to combine, and that has a very material influence upon the price that they pay. Is there anything in that that you know of?

Secretary HOUSTON. Perhaps something, but I do not imagine that is the whole story by any means.

Senator NORRIS. Are they buying as Governments entirely?

Secretary HOUSTON. I would not try to answer that without refreshing my memory. They have tried to get rid of much of their war machinery, but I can not answer the question offhand.

Representative HEFLIN. When the Finance Board was in operation did they not back these purchasers themselves?

Secretary HOUSTON. Under the amendment. To the extent of \$46,000,000 grand total, which, of course, is a mere bagatelle in comparison with the amount privately financed. I was informed when we suspended operations that one of the corporations that I have referred to was about to come to Washington to get aid in financing \$75,000,000.

Senator NORRIS. Mr. Secretary, has the War Finance Board any money now?

Secretary HOUSTON. It or the Treasury would have to borrow.

Senator NORRIS. It has not anything?

Secretary HOUSTON. No; except a credit on the books of the Treasury.

Senator NORRIS. Did it have a surplus?

Secretary HOUSTON. There were certain amounts deposited in the Treasury.

Senator NORRIS. Then it has all been paid back?

Secretary HOUSTON. No; certain loans are outstanding.

Senator NORRIS. Do you know how much that has been?

Secretary HOUSTON. The amount deposited in the Treasury? No; I would have to look it up.

Senator NORRIS. Quite a large sum?

Secretary HOUSTON. That will be available very soon when the annual report is out, but I do not recall it offhand.

Mr. HEFLIN. Something over \$300,000,000?

Secretary HOUSTON. I think so. All the money it has had it received from the Treasury, earned, or borrowed. Of course, all loans are not paid back.

REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

FRIDAY, DECEMBER 3, 1920.

JOINT SESSION OF THE
SENATE AND HOUSE COMMITTEES ON AGRICULTURE,
Washington, D. C.

The Committee on Agriculture and Forestry of the United States Senate and the Committee on Agriculture of the House of Representatives reconvened, pursuant to adjournment, at 10.30 a. m. in the room of the Senate Committee on Agriculture and Forestry, Senator George W. Norris presiding.

Present: Senators Norris, Wadsworth, McNary, Capper, Gore, Kendrick, and Harrison, and Representatives Tincher, of Kansas; Paul W. Riddick, of Montana; and J. Thomas Heflin, of Alabama.

Also present: Senators Sterling, Kellogg, Henderson; Representative Riley J. Wilson; Hon. David F. Houston, Secretary of the Treasury; Hon. William P. G. Harding, governor Federal Reserve Board; and others.

Senator NORRIS. Mr. Secretary, we have been having some hearings here on the condition of the agricultural part of the country and trying to devise some plan of relief, if possible. We have asked you to come and give us your ideas as to the conditions, whether relief can be extended, and if so, how. We will be glad to have you go ahead in your own way.

STATEMENT OF HON. DAVID F. HOUSTON, SECRETARY OF THE TREASURY.

Secretary HOUSTON. Have you any specific proposal, Senator, which you wish me to discuss?

Senator NORRIS. No; but, I take it, that is the principal object that the committee has in view, to get proposals. We have not any specific thing before us. The investigation is as wide as it is possible to be. We are anxious to get if we can any proposal for consideration that would give relief to the agricultural part of the country.

Secretary HOUSTON. I have perhaps given more thought to this situation, Senator, in the last two months than to any other which has come before the Treasury, and I have to say that I know of no solution for the problem presented by falling prices.

I suppose that it was apparent several years that the process of the upward movement of prices would end sometime, and that there would be after a certain interval a recession of prices. I was apprehensive, rather I was convinced, that that would be the case, and I expressed that view immediately after the armistice. The armistice came on November 11, 1918, and shortly thereafter there were conferences held, so-called reconstruction conferences, which had as their

Senator NORRIS. That is what we want.

Secretary HOUSTON. I can do that.

Senator NORRIS. I would be very glad to have you do that.

Senator GORE. The Congress has laid down certain things to come about at the restoration of peace; the cessation of hostilities in Europe. We need first an increased production. That takes time. The only immediate relief we can give would come through increased credits to the European countries. There is no sort of machinery we can erect here that will help, unless they provide themselves with means of purchasing, and unless the allied countries would help these small countries. Otherwise I do not see that it would help.

Secretary HOUSTON. I have had the rather unique experience of having gentlemen come to me and urge that the Government directly or indirectly increase the loans to Europe, who had advocated the cancellation of the debts they now owe us. But unless you can find some way to increase Europe's buying power and discover that she has an effective demand for our products, a desire to take more than she is now taking, and that she can put up the requisite securities, I do not see how you can expect very much aid in that direction. If it is possible to discover a larger business basis for credits, in view of Europe's partial recovery and natural effort to supply herself at home, and to buy in markets of the world where she can get things cheapest, I do not imagine the additional exports from here will be very great. Europe will return more and more toward self-sufficiency. I think our people have to bear this in mind and make plans accordingly.

Representative TINCHER. Are there any corporations organizing now under the amendment to the national banking law passed by the last Congress?

Secretary HOUSTON. I do not know any which is operating at present.

Representative TINCHER. As I understand you, it is your idea that we could not expect much assistance by resuming the operations of the War Finance Corporation; I wondered if it would resume as a reconstruction finance corporation until these organizations are really organized under the amendment to the national banking law, if there is any possibility of doing any injury to them?

Secretary HOUSTON. It would involve borrowing by the Government. It would open up very embarrassing situations. Every business would think that it had an equal right to ask for assistance in financing exports of commodities in which it was interested. It would continue this war agency for an indefinite period, and keep the Government in the banking business.

Representative TINCHER. I understood the Treasury last year, when we were amending the national banking law to authorize these corporations, that they would continue during the reconstruction period and be of vast benefit to this country. Now, without these corporations in operation at all, and it is some time since the law became effective, I wondered if it would be of any assistance at all—

Secretary HOUSTON (interposing). I do not desire to hold out false hopes to anybody. As I said before, the business of the country is financing exports this year at the rate of about \$8,000,000,000, and I am somewhat amazed that Europe can find means under the cir-

cumstances to pay as much as she is paying. It is possible that private agencies, by intelligent and unified effort, might discover some additional means. I have in mind such associations as the one which is being formed in the South and the larger one which is to be considered soon in Chicago, and others which I imagine will be formed, if people are not led to rely on the Government. A cattle pool has been formed, and I think it can furnish assistance to cattlemen. But we are in a period of natural recession of prices following a great war and of partial recovery, especially for Europe. There are those who are simply seeking some sort of market for their products; there are others who seek a market at a predetermined price. There is involved these two questions: Is it wise for the Government to intervene to attempt to raise prices; and if so by what method? In the minds of many the only question is whether the Nation can raise the price of foodstuffs.

Senator GORE. After a campaign against the high cost of living.

Secretary HOUSTON. In which vast numbers of people are still interested.

Representative TINCHER. You would not call the agricultural products natural; at least, if they are natural, they are very abrupt?

Secretary HOUSTON. Very abrupt; but, as I said at the outset, there has been a downward tendency of prices of wholesalers and manufacturers; the retailers are still receiving high prices.

Senator KENDRICK. Mr. Secretary, what would be the effect on the general finances and business of the country of borrowing at this time on the part of the Government?

Secretary HOUSTON. We shall have to borrow at least \$500,000,000 within two weeks.

Senator KENDRICK. Well, do you think it would disturb the situation if we wanted to borrow \$500,000,000 more for the War Finance Corporation?

Secretary HOUSTON. I should prefer to see the Government borrow as little as possible. I have heard some criticism of the Treasury or continuing to borrow to meet current bills. Of course, we must meet them. When the Government taps the resources of the country, to that extent for the time being it impairs the ability of others to use them. And we must look to the future. I do not want to engage in a discussion at this time of the future financial needs of the Government, or to indicate the possible liabilities of the Government for the next few years, or the possible receipts, but obviously we have to bear the future in mind in discussing the present situation, particularly if it is proposed that the Government indulge in larger borrowing.

Representative BYRNES. Mr. Secretary, what would be the difference in the Government borrowing at a low rate and the private corporations, of which you have spoken, borrowing at possibly 8 or per cent, all borrowing for the same purpose?

Secretary HOUSTON. If it is desirable in principle to keep the Government in the banking business, I have no easy answer. But I have not regarded that as a desirable policy.

Representative BYRNES. Well, under the terms of the act the War Finance Corporation could continue to exercise its functions for a year after the ratification of peace.

Secretary HOUSTON. Yes; but it would be in existence for a long time after it ceased to make loans.

Representative BYRNES. What was the condition that made it unwise to remain in business after May 1; why did May 1 become the arbitrary date after which it was unwise to continue business?

Secretary HOUSTON. I said some time ago that exports had not fallen off, that private agencies had found ways to finance them, and it was quite clear to me at least that the people were coming to the Government to get money who should get it in the ordinary commercial way.

Mr. HEFLIN. Don't you think, Mr. Secretary, that the fact that they could obtain money through the Treasury helped these private concerns to carry on business?

Secretary HOUSTON. Yes; but the amount they obtained under the amendment was an inconsiderable part of the whole and I do not think it cut much figure.

Senator GORE. But it did help to get money more easily, as the case which Senator Wadsworth cited yesterday; the fact that the War Finance Corporation was willing to finance it, made it more easy to get money. Of course, there is no way to measure accurately that psychological condition.

Secretary HOUSTON. I do not think it would be very material.

Senator GORE. Let me ask you this hypothetical question, Mr. Secretary: If Germany could arrange with the Allies for \$1,000,000,000 of credit, to constitute a preferential charge on its resources and the bankers of this country were willing to underwrite that, or guarantee that, then would you feel disposed to open the powers of the War Finance Corporation and assist through the shipping department or other corporations?

Secretary HOUSTON. I do not think it should be necessary for them in that case to resort to the Government. If Europe can put up good business securities, I think the trade can be privately financed, and I do not think the Government should be asked to take any security that business will not take.

Senator GORE. I am assuming that business would take it; that it was underwritten.

Secretary HOUSTON. Then I think the business could be privately handled. But I want to say this: The suggestions of underwriting Germany by the Allies, as discussed in the past, involved underwriting by us also.

Senator GORE. All the Allies would be expected to do, I think would simply be to waive their preferred position and allow the \$1,000,000,000 issued for the purchase of food and raw materials to come first.

Secretary HOUSTON. I think the simplest way for Congress to help Germany to buy what she wants would be to make another loan and extend credit directly; and that I am opposed to.

Representative SUMNERS. May I ask a question or two? In the absence of any waiving of credit on the part of the Allies, who expect to collect in the way of indemnity, as a matter of fact, would it not be better to use our credit among our own folks who need credit than to loan to Germany, already practically broke with an undetermined debt yet to be written up against it?

Secretary HOUSTON. You are presenting a choice of two evils.

Representative SUMNERS. That is what we confront, a choice of two evils.

Secretary HOUSTON. I do not know the answer.

Senator CAPPER. Mr. Secretary, I have here three recommendations made by the American Farm Bureau Federation, which they asked me to present to this committee, which they urge upon Congress for the purpose of establishing relief of the strained credit situation in the agricultural districts. The first is the most important one. I want to ask you about these, and in order to get it as they have it, I will read it.

First. We believe that the law should be so amended that the Federal Reserve Board will have authority to classify rediscounts when offered. As it is now the only method of controlling volumes of money and credit available to the Federal Reserve Board is by increasing the discount rate until the price becomes prohibitive along a great many lines of business, thereby reducing the volume of money and credits needed. The unfortunate part of that is readily to be seen in the fact that the farmer, who has a slow turnover and a narrow margin of profit is not in position to compete with the speculator who has a good turnover and a wide margin of profit, so that instead of it helping agriculture, it has the effect of putting money up at option and agriculture being outdone by those who are in business it gets greater returns and profits.

Secretary HOUSTON. I am not prepared to discuss now the banking situation.

Senator CAPPER. What is your judgment as to what that recommendation should be?

Secretary HOUSTON. I would have to consider the matter, and discuss it with the members of the Federal Reserve Board.

Senator NORRIS. The next witness will be the governor of the Federal Reserve Board. I suggest, Senator, that you ask him those questions. Maybe the Secretary would be glad to answer the other two.

Senator CAPPER. The others have to do with an amendment to the farm loan act, and the matter of warehouse certificates. The other two, being amendments to the farm loan act, probably the Secretary would not be willing to answer them.

Secretary HOUSTON. Senator, I would like to say in closing, unless there is another question, that while I am very sympathetic with producers who are confronted with sudden recessions of prices of their commodities and with the consequent difficulties, nothing more fatal could happen than for this Nation to embark on an unsafe fiscal or banking policy. This would set up evils which could be vastly greater than those we are now confronted with. With all our difficulties to-day, one of the reasons why this Nation is not in worse circumstances following the world explosion—the greatest in history—is that the authorities, Congress and the Executive, have pursued reasonably sound fiscal and banking policies; and if we were, even in limited degree, to embark on some of the schemes suggested, we would find ourselves where many of the other nations now find themselves. We would have our difficulties immensely increased and be confronted with a situation from which we would not recover for many years.

There is an explanation, at least a partial one, for existing trade difficulties. It is futile for me now to discuss it. It lies in the fact that the world is still not at peace; that Europe is still not at peace;

and that men there are not free to resume their undertakings with helpful cooperation of this Government and that the world is staggering under burdens which are unfortunately the legacy of war. One sad thing about war is that its burdens are not over when the fighting ceases; they will be with us for a generation or more—perhaps a century. And while, as I said, my sympathy is very keen for those who are distressed, I have not been able to think out any very large helpful method of accomplishing what some seem to desire, namely, that the price movement be turned back and that prices be increased. I am not able to suggest any helpful method of doing this. I am of the opinion that the banks of the country realized that it was their duty to take care of the industries of their respective sections. I am aware that it has been suggested to them, and I think the facts show that there has been action on the suggestion that they devote their resources first to the most urgent needs, curtailing loans for speculative purposes, and discriminating, if the credit conditions required it, giving consideration first to the more essential activities and later to the less essential. I think the facts indicate that they have worked measurably and with reasonable intelligence to that end. I do not know when the process of price adjustment will be completed. It may be that it has been completed, except for retail transactions. It may be that there will be a slight tendency upward and that the buyers will come back more actively into the market. It may be that Europe will find means to take more commodities by methods that sound business and good business can approve.

At any rate, I hope that we all realize that our hardships—and all of us are suffering from them—are a result in large measure of the war in which we were engaged and that we must bear them for the time being; and I am sure that our people will do so, with the same intelligence and patriotism that they manifested during the war.

Senator KENDRICK. Mr. Secretary, you know that with most of the farm products in the West it is not a question so much of a high price; there are a number of products in which it involves the question of some price?

Secretary HOUSTON. Yes, sir; I realize that.

Senator KENDRICK. For instance, at this time there is absolutely no market whatever for wool. I understand the same situation applies to cotton in the South; millions of bales are really as worthless as if they had never found a useful output. And under such conditions it is very natural for the Members of Congress and those who are directly concerned to be anxious to find a measure of relief.

Secretary HOUSTON. We all are.

Senator HARRISON. Mr. Secretary, you do not have any doubt that under the law now the War Finance Corporation could function if you and those who work with you saw fit to allow it to function?

Secretary HOUSTON. No; I think it could borrow money.

Senator HARRISON. Now, if the Congress should differ with you and your conclusions touching the operations of the War Finance Corporation, what could they do to get the thing set in motion and assist, if they thought it wise?

Secretary HOUSTON. It could direct it by legislation to do so.

Senator HARRISON. The Congress could direct it?

Secretary HOUSTON. Yes; by legislation.

Senator HARRISON. And then it could function speedily, notwithstanding any views you may have had in the past?

Secretary HOUSTON. Certainly. If a law is enacted directing the corporation to function, it goes without saying that it would function.

Senator HARRISON. The reason I say that is, that someone has intimated that your past views might interfere with its functioning.

Secretary HOUSTON. I could have no discretion as to carrying out a direct mandatory act. I can exercise discretion only where the law makes it possible and where in my judgment it would be against the public interests to do a certain thing, and I have discretionary power I would decline to do it, as in the present instance.

Representative HEFLIN. In that connection, Mr. Secretary, you said a moment ago that these depressed conditions now are the result of the war, which is true. Now then, if the farmers of the country are suffering a loss of billions of dollars, which they are, because of the war, and their inability to borrow money from the banks to carry their produce until the prices are better, don't you think it is the duty of the Government, and that it would be justified in borrowing money itself, if the Government can get it and private individuals can not, to help tide them over this time caused in part by the war?

Secretary HOUSTON. The matter is now one for the Congress to consider. I have attempted to give reasons for my view that the Government can not wisely intervene to accomplish what you suggest.

Senator NORRIS. If there is nothing further, Mr. Secretary, we are very much obliged to you for coming up.

Secretary HOUSTON. I thank you, gentlemen, and I will take steps immediately, Senator, to send you figures on the physical volume of agricultural exports.

Senator NORRIS. We will now hear Gov. Harding, the governor of the Federal Reserve Board.

STATEMENT OF MR. WILLIAM P. G. HARDING, GOVERNOR OF THE FEDERAL RESERVE BOARD.

Senator NORRIS. Gov. Harding, you heard the statement made to Secretary Houston, and without repeating that statement, the committee would be very glad to hear from you with any suggestions that you care to make.

Mr. HARDING. I presume that you wish to hear from me more along the banking lines.

Senator NORRIS. I think particularly that, because the Secretary has declined to discuss some features of it. We will not confine you to that. We will be glad to have a suggestion along any line, in addition to the banking line, that you have to make.

Mr. HARDING. The present situation seems to differ from any we have ever before been confronted with in that its scope is universal. I remember six years ago we had acute distress in the cotton industry. At that time, however, for almost every other staple product of the country there was a normal demand. The present price recession, however, seems to involve every staple agricultural product. The recession of prices is a process which has been going on for the last few months, not only in this country, but all over the world, and in countries where there has been the greatest inflation of credits and

currency the distress is most acute. There are certain basic causes, I think, which are responsible for present conditions. As the Secretary of the Treasury has pointed out, speaking generally, it is one of the results of the war, and the cure for the evils which now afflict us is one which calls for a general cooperation on the part of the producers, the banks, the distributors, and the consumers. There has been a marked shift in the situation in the past 12 months. Some time ago we had what might be called a seller's market—the man who then had goods to sell was practically doing the purchaser a favor to let him have what he wanted. Just now there is distinctly a buyer's market.

The first essential, it seems to me, for bringing about a more normal condition is that we all reach a calmer state of mind. I think evils are accentuated by hysteria or a disposition to give up.

The Federal Reserve Board was more apprehensive over general conditions a year ago than it is to-day. That may seem to be rather a startling statement, but a great many people realized a year ago that conditions then existing were abnormal. We were living in a fool's paradise; prices asked for most commodities and general business conditions were then just as abnormal in the one direction as they are now abnormal in the other. The Federal Reserve Board has made a determined effort to bring about safer banking conditions with minimum disturbance of the country's commerce, business, and industry, and I believe the figures which are available will convince anyone that some precautionary measures were absolutely essential. As far back as August, 1919, there was a general appreciation on the part of the public of the dangers of the situation then existing. The United States Senate addressed a communication to the Federal Reserve Board on the 5th of August, 1919, asking what was going to be the outcome of the constant expansion of credits and of the repeated advances in the cost of living, and the President addressed a joint session of Congress on the subject during the latter part of the same month. Then as recently as last May the Senate adopted a resolution, No. 363, addressed to the Federal Reserve Board, in which it expressed its concern over the inflated conditions then existing, and asked what steps the Federal Reserve Board was taking to provide for the seasonable movement of crops which were to come about in the course of a few months, and what the board was doing to curb the tendencies toward a constant advance in the cost of living.

The Federal Reserve Board, as it understands its functions, has nothing to do directly with prices or living costs. It is a banking board exercising a general supervision of the Federal reserve banks, and the rates of discount which are fixed by the Federal Reserve Board following recommendations of the directors of the Federal reserve banks, are not fixed primarily with reference to prices. The board does not feel that it has any right to establish any rates of discount with a view of putting prices up, or putting them down. The board's duties are clearly defined in the Federal reserve act, and it has endeavored to carry out the provisions of that act. At the same time we have realized the desirability of working the situation out and bringing credits down to a more normal basis with as little disturbance to the agricultural industry and general business as possible. Up to the middle of September it looked as though we were going to succeed. The discounts of the Federal reserve banks—or

I may say their total invested assets, which includes paper rediscounted for member banks and purchases of acceptances, increased from the 19th day of September, 1919, from \$2,350,000,000 to \$3,300,000,000 on the 27th of January, 1920—an increase within four months of nearly 50 per cent. It is evident that any continuation of such a rate of increase as that would soon exhaust the resources of any banking system, no matter how strong. However, from the 27th of January, 1920, when Federal reserve bank discount rates were advanced, until the present time, there has been only a moderate increase in the invested assets of the Federal reserve banks, but a substantial increase in the volume of Federal reserve notes outstanding, and while the angle of ascending credit during the period, September 19, 1919, to January 27, 1920, was 45 degrees, the angle since the 27th of January has been but about 2 degrees.

In the New York district there has been considerable liquidation. Speculative loans have declined probably \$1,000,000,000 or more, and deposits in the banks of New York City are about \$1,400,000,000 below their high point. In other sections of the country, however, bonds and deposits have increased by about \$5,000,000,000 since September, 1919.

Of course, the farmer is greatly disappointed with the present market for his products. Looking back several months I think we can recall how the real situation was brought to the knowledge of the average man and can trace the successive events leading up to present conditions. The first intimation that most people had that there was a change taking place in the price level occurred last spring when there was a financial collapse in Japan, due primarily to a slump in the silk market, and 74 banks in Japan suspended, and there were many failures of large houses in the silk business. Following that, there was a collapse in the wool market. It so happened that just about the time our wool clip was coming on last May, and the eastern buyers had their men in the field, there were large importations of wool from Australia and the Argentine, that our own War Department had large stocks of wool which it was selling at auction, and that the British Government had large stocks of wool also on the auction market. The result was that the market for wool was destroyed over night. The wool dealers in the East telegraphed their buyers to come home; they did not want any wool. Of course, the wool clip had to be financed as best it might. Some of the commission men agreed to make advances. The Federal Reserve Board went to the limit of its powers in the matter of authorizing the purchasing or discount of acceptances based on shipments of wool and the discounting of direct loans on wool.

Just about that time another significant thing happened, indicating the change in the public temper as to prices. There was a movement started, I think in the South, to have everybody wear overalls, as a protest against the high clothing market. This did not last long, but it evidenced a public sentiment against high prices for clothing.

Senator GORE. It ran the price of overalls up considerably for the time being.

Mr. HARDING. Yes; it doubled the price of overalls for the time being. The movement was the forerunner of a general revulsion of

feeling in this country and all over the world against the abnormally high prices that had prevailed.

Now, it is very difficult, when a movement starts in one direction to stop it where it ought to stop. We go too far in one way, and then we go too far in another direction, and it takes some time for the pendulum to reach its proper balance, or normal equilibrium.

I think what most concerns the farmer in the present circumstances is his uneasiness as to his own future. I may say in passing that the best evidence that the agricultural interests of this country have not been denied credit is the fact that in nearly every instance the acute anxiety of the farmer arises from the fact that he is unable to sell his products for enough to pay his debts. The fact that he has debts shows that somebody has given him credit; his paper has been rediscounted at the Federal reserve banks freely and in large volume.

I think that it is important to remove apprehension as far as possible, and I want to do what I can here to-day to remove any undue apprehension that may exist.

Mr. HARDING. I have no authority to speak for the banks generally, but having been in the business myself, I know something of banking temperament. The average banker wants to stay in the banking business; he does not want to go in the merchandising business and is averse to foreclosures and other drastic methods of liquidating indebtedness, except as a last resort, and my opinion is that if the farmer will go to his banker—if he is indebted to a bank—and make a frank statement of his condition, giving additional security if available and if required, and agree to make gradual sales of his produce as the market develops, applying the proceeds on his indebtedness, he will be able to make arrangements for present pressing needs and for requirements for another season.

The credit situation is not essentially different from what would have been the case had there been a crop failure. Crop failures have occurred in the past in various sections of the country. What has happened? No general bankruptcy has resulted from these crop failures. Arrangements were made whereby the farmers were carried over. I have known of cases in my own section of the country where it has taken two or three years to pull a farmer out after a crop failure. The bankers and the merchants stood by, if the man was worthy of credit, and in two or three years they would work him out. A bank can prosper only as its community prospers. The banker realizes this. The banks have been looking forward to the season of the year when they could secure liquidation of their loans to farmers, but I am quite sure wherever they find that the farmer must be carried along he will be, provided he is honest and shows a willingness to do his part.

The Federal Reserve Board has always advocated the policy of orderly marketing of crops. We realize that it is best for the producer, best for the consumer, best for the banking interests, and best for the railroads. Suppose an entire crop which takes the better part of a year to produce, a staple crop, should be dumped on the market in the course of two or three weeks or a month or two. The result would be that the pressure of the volume of that commodity, no matter how great the demand for it might be, on the market at one time, would depress the price for it. It would tax the banks

to furnish the money in advance of the consumptive need for the crop, and it would also tax the warehouse capacity, and the railroads would be burdened in furnishing transportation facilities.

Orderly marketing means some marketing; it means some buying and some selling, a gradual and steady process. I would regard as an ideal condition the steady movement of a staple crop extended over a period of five or six months, thus causing strain on anybody and giving the producer the benefit of the average price.

It has been pointed out that there are certain staples for which there is at present no market at all. Well, I do not see anything to do in such cases but to arrange for renewals on the best terms possible. But there are other staples for which there is some market although prices are not satisfactory to the producers.

It is a difficult matter to say what the cost of growing a given farm product is, because conditions vary in different sections, but we will assume that there is no staple farm product to-day that can be sold at the cost of production. Wouldn't it be the best policy for the farmer who is indebted to others—and one debt creates another—to sell a portion of his commodity at the market price, and apply that on some pressing indebtedness which in turn will be applied to some other indebtedness and will result in the liquidation of bank credits and thus start business up again? Repeat the process of gradual sales. This would ease the situation and it would start again a buying movement on the part of the public. I think as soon as the holiday trade is over that we will see some stabilization in business, because as matters now stand the prices of some things have gone down very sharply, and the prices of other goods in the hands of those from whom the people must buy have not gone down as much. It is an unnatural situation that some prices should remain high when the general trend is downward. As a rule, barring shortages, prices of the ordinary necessities of life tend to rise and fall together. They seek a common level.

I think what is going to happen is that there will either be an advance in the price of some commodities that have gone down very sharply, or there will be a corresponding drop in other articles and living costs, which will tend to put the whole situation on a more uniform basis. Thus in the event that there is no substantial improvement in the price of farm products, it seems certain that the farmer can look forward to producing next year's crop at a greatly reduced cost.

Taking a broader view of the situation—for I have just been discussing generally local conditions—

For permanent relief, I think we must look to our foreign trade. I do not want to discuss any delicate political or controversial questions, but it does seem to me that so far as the cotton situation in the South is concerned, and I believe the grain situation in the West is involved in it also, and the manufacturers also—the sore spot now lies in the situation in the former Central Empires, Germany and Austria. If some way could be devised of opening up trade with those countries our situation here would be vastly improved. Congress passed a law some time ago known as the "Edge Act," which authorized banks to subscribe to the stock of corporations engaged in financing foreign trade. So far there has been only one corporation organized under the provisions of that act; that is the First Federal

Foreign Banking Association of New York, with \$2,000,000 capital. And, as Secretary Houston pointed out, there is another company now organizing, with New Orleans as its headquarters, to be known as the Federal International Banking Co., with \$6,000,000 paid-in capital. And the American Bankers' Association is undertaking to organize a corporation with \$100,000,000 capital. There is to be a meeting of the organization committee in Chicago next week.

I have talked with representatives of all these corporations. I had a long talk with Mr. W. S. Kies, who recently returned from Europe. He is interested in the First Federal Foreign Banking Association. I asked him to tell me what was the trouble with opening up trade with Germany and Austria, Czecho-Slovakia and Poland. He said, in the first place, there must be greater pacification of Europe than now exists before business men would feel warranted in taking large commercial risks. He said it was impossible to do business with Germany to any great extent under the present conditions, for the reason that her reparations had not been fixed; that in accepting the peace conditions Germany has practically signed a blank check, and the amount has not been filled in. It kills the incentive for initiative in Germany, and he says it is almost out of the question for any private agency to undertake the granting of credits to Germany.

In talking with a German commercial agent, Mr. Bendix, and others I have seen lately, I have also reached the conclusion that ordinary acceptance credits running as long as nine months, even if we could arrange for three months acceptances with renewals, would not do any great deal of good.

We had an idea at one time that it would be possible to send raw materials to Germany under an acceptance credit, and have the factories there manufacture the goods, have the manufactured goods shipped out of Germany and maintain a lien all the way through. but on looking into the matter, I am told that the German law does not allow such a manufacturers' lien.

Senator GORE. Would it be practicable if it did?

Mr. HARDING. Some of the German financiers are undertaking to have the law changed.

Senator GORE. Would it be practicable if it did?

Mr. HARDING. It would only be a drop in the bucket. This will have to be developed in a broader way. Just as this country was built up by foreign capital, and the great West was built up by foreign capital and eastern capital, so the war-stricken portions of Europe must be aided in their rehabilitation by the long time investment of American capital.

I am told there are a great many attractive bargains all over Europe in the way of investments in public utilities, factories, real estate, and wood pulp enterprises; any number of opportunities that the American business man would, in ordinary circumstances, grasp eagerly. Here this question of reparations comes in again. The average business man does not care to go into those things, unless he knows what he is going into. Take the matter of German real estate. I was told the other day that a very attractive house, or palace, on the Unter den Linden, in Berlin, which I think was occupied at one time by one of our ambassadors, could be purchased to-day in terms of German marks at an actual cost of \$16,000 Amer-

ican money. Now, of course, opportunities like that would be eagerly availed of by enterprising Americans if they were not barred by fear that the investment might be wiped out by the imposition, for instance, of a large capital tax. When it has been determined what Germany shall pay to the Allies under the reparations agreement, American investors will be in better position to decide upon a policy.

Senator NORRIS. Isn't it out of the question to consider Germany at all until their reparation matter is completed?

Mr. HARDING. I think it is absolutely out of the question to consider doing anything for Germany and Austria until this whole question is settled.

Senator NORRIS. To meet that, if the Allies waive and consent that a loan to them should take precedence and not be affected, it might work.

Mr. HARDING. Pending that, we have had suggestions made that we ought to do more to develop trade with other parts of the world, and we have had some conferences lately regarding the development of trade with Australia. But Australia is mainly an agricultural country, and possibly a policy could be adopted that would result in sending American manufactures to Australia, but the result would be that Australian agricultural products would be brought here—wheat, wool, and hides to compete with domestic producers. The same is true with respect to the Argentine, so that if we develop trade in one direction we simply accumulate a glut of farm products which would make our agricultural situation more acute than it is to-day.

The question of more trade with all South American countries has been discussed. South America has been tributary, commercially, to Europe, rather than to America up to this time, and is affected by present European conditions just as we are. Unless they can sell us more than they buy from us the South Americans find the same difficulty in trading with us now, in a less marked degree, that the European does.

Senator NORRIS. Did you get any information, when you were discussing these questions with these men who had been over there and knew the conditions, as to what the purpose would be of the Allies being willing for Germany to make a loan to get some produce, and taking a lien with precedence over their own claims?

Mr. HARDING. I discussed that with them, Senator, and the gentlemen were able to express only their own personal views. They thought there was no possibility of getting the Allies to do that.

Senator NORRIS. Well, if the situation is such as has been described, when the Allies come to a realization that they will not get anything—

Mr. HARDING (interposing). One gentleman told me that he thought, so far as Great Britain was concerned, that there would not be much trouble, but that the difficulty was with the French; they seem unwilling to take immediate action.

Senator NORRIS. The French people are very anxious, and properly so, to get indemnity.

Mr. HARDING. Yes, sir.

Senator NORRIS. And they must realize that they can not get any indemnity unless Germany is able to produce. And she must have

the tools, and must be able to feed her people for awhile. Did you get the idea that was the situation over there—

Mr. HARDING (interposing). I hesitate to discuss these international questions, particularly when my information is purely hearsay. I think the question, so far as France is concerned, is not merely one of indemnity. I am told that she feels uneasiness as to her future position. There are questions other than financial that seem to disturb her.

Senator NORRIS. Would it be possible, Governor, for the Federal Reserve Board to permit of advances in agricultural communities where these various commodities are held, to extend additional credits to the farmers who are producers? That is one of the things, I understand, that is desired.

Mr. HARDING. Additional credits are being extended from day to day, Senator. There seems to be a mistaken idea as to the powers of the Federal Reserve Board. We have no control whatever over the loaning policy of the member banks, or of the nonmember banks; and most of the banks in purely agricultural sections are nonmembers. The national banks can make any loans which their directors wish to make, which are authorized by the national banking act; and the State banks which are members are authorized, under section 9 of the act, to make such loans as may be authorized by their own State laws, as interpreted by their own State banking departments. The Federal Reserve Board has no authority to say to any bank, "you must not make such and such loans, or extend such and such credits, or you must make such and such loans and extend such and such credits."

Senator NORRIS. No, Governor; nobody claims that; but isn't it true, that the Federal Reserve Board controls the credits of the Federal banks, and decides whether it can discount any more paper; and that is what controls the local bank; if they can not get any more credit, or if they have reached their limit, they can not get loans?

Mr. HARDING. Section 4 provides that every Federal reserve bank shall be conducted under the supervision and control of a board of nine directors, three of whom are appointed by the Federal Reserve Board and six elected by the member banks. The board of directors of a Federal reserve bank is vested with all the powers usually vested in the board of directors in a banking corporation. There is no limit put on the volume of credits they may extend to any member bank, except they are charged, in administering the affairs of the bank, to be fair and impartial to all member banks, and in extending credit accommodations to a particular member bank to pay due regard to the wants and requirements of other member banks.

I may say we have had a great deal of interbank discounting all during this year. At one time seven Federal reserve banks were borrowing as much as \$250,000,000 from three other Federal reserve banks. Such borrowing is permitted by section 11 of the Federal reserve act. Now, without this borrowing their reserves would have fallen to a very low percentage, and under the provisions of another section of the act they would have been required to increase their rediscount rates. The Federal Reserve Board has maintained the reserves of all banks at or above their legal minimum by permitting interbank borrowing. Take in your own district, Senator, the Federal Reserve Bank of Kansas City has a reserve of something over 40 per cent. It has that percentage of reserve because of the large

amount of paper it has rediscounted with other Federal reserve banks, namely, with Cleveland, Philadelphia, and Boston, which are the only banks in position to rediscount large amounts for other Federal reserve banks without impairing their own reserves. The Federal Reserve Bank of Kansas City, if it should pay all its debts to other Federal reserve banks, would have a reserve of about 18 per cent. The Federal Reserve Bank of Minneapolis is in about the same position. The Federal Reserve Bank of Dallas would have a reserve of about 18 per cent if it had not rediscounted heavily with other Federal reserve banks. The Federal Reserve Bank of Atlanta would have a reserve of about 20 per cent. The Federal Reserve Bank of St. Louis, which was down to 20 per cent some time ago, has been having some liquidation, not so much along agricultural as along manufacturing and jobbing lines, and now has about 35 per cent.

Senator NORRIS. These figures that you give show that they are all in good condition, as I understand it. Would it not be possible—I want you to understand I do not say it should be done. I want to get what could be done if it was the proper course to pursue under the law; would it not be possible for the Federal Reserve Board to take such action by which all these banks would be permitted to rediscount, in addition to what they have now, of farmers' paper, so that they might hold at least a portion of the crops they have on hand now that have been produced at a loss, until there is a more favorable market?

Mr. HARDING. Senator, I have never heard a complaint from a member bank that it was being denied accommodations.

Senator NORRIS. I think some of them are now; at least that is what they say.

Mr. HARDING. I think the member bank in some cases feels that it has gone about as far as it cares to go; it does not care to have its name on any more paper.

Senator NORRIS. Can they rediscount more than they have now?

Mr. HARDING. The law does not impose a limit.

Senator NORRIS. But they have to get the consent of the people above them before they can rediscount. What I want to know is, are the member banks now permitted to rediscount more farmers' paper?

Mr. HARDING. Certainly, they are.

Senator NORRIS. They would?

Mr. HARDING. Possibly some of them have gone about as far as the limits of safety would justify. But you would be interested in knowing that even in your district, which seems to be one from which considerable complaint comes, there are 1,100 member banks, and many of them do not owe the Federal reserve bank anything.

Senator NORRIS. I think they should be given to understand that they are a part of the system and they are not doing their part.

Mr. HARDING. I think it has been called to their attention repeatedly, but it is the old story of leading the horse to water; what are you going to do about it if he will not drink?

Representative TINCER. I know a member bank in the Kansas City district—this is partly hearsay—that has issued notice to creditors that between now and January 1 they must reduce their loans by 25 per cent. There is no such disposition on the part of the bank at Kansas City that they must do that?

Mr. HARDING. Absolutely none.

Representative BYRNES of South Carolina. Has your attention been called to a recent issue of the Manufacturers' Record, a copy of which was sent, I suppose, to every member of the House and Senate, which shows on the first page the instructions from the Federal Reserve Board to the banks to curtail credit? My memory is there are several bulletins, and it would create the impression that they must curtail credits.

Mr. HARDING. I have not seen that.

Representative BYRNES of South Carolina. Well, were such bulletins ever issued?

Mr. HARDING. They are some disconnected extracts.

Representative BYRNES of South Carolina. They are extracts; yes.

Mr. HARDING. Yes. We had a conference here on the 8th of May last, when the situation seemed to be getting out of hand. We had raised the rates as high as we wanted to go. There was indisposition on the part of the agricultural interests to sell their products, either because they thought they were going higher or because of the railroad situation. There was no selling movement to amount to anything, and there seemed to be a revival of the borrowing spirit, and we did not want this to resume the pace it had gone before, because we had to prepare for crop moving in the fall. A conference was held between the board and the Federal Advisory Council, which is a statutory body authorized to advise the board on general conditions, and class A directors of the Federal reserve banks. A carefully prepared statement was read to that conference, which was afterwards made public.

That statement if read from one end to the other, contains nothing that anyone can take exception to. It merely called attention to certain facts which existed and to certain dangerous tendencies. It called attention to the necessity for providing funds to move the crop in the fall, and it pointed out that if the extension of credit should proceed at the rate it had gone for a few months preceding, the Federal reserve system would be unable to function effectively, and a great many banks might be obliged to restrict necessary credits. Banks generally were cautioned to pursue a more careful policy in extending credits and were asked to look over their loans to see what purpose they were for; whether they were for speculative purposes, for the holding of commodities which could and ought to be sold. The statement was very moderate in tone. It pointed out that in some cases it might be necessary for a bank to pay some attention to the essentiality of the purpose for which a loan was asked, and that in cases where it found it necessary to discriminate it should do so, being careful always to take care of the essential enterprises of the community and not to do anything that would result in any general hardship, but that if it had an opportunity of collecting a long-standing loan that it had really no business to carry, it ought to do so. Banks were told that in granting new accommodations they should favor those that were essential, instead of cutting them down and loaning on nonessential propositions. As to essential or nonessential loans, we distinctly stated that the Federal Reserve Board was not in position to give any advice to the banks, but that the individual banker was in better position

than anyone else to determine the essential or nonessential character of the loans offered to him.

Representative BYRNES of South Carolina. Were those bulletins all printed?

Mr. HARDING. A statement was given to the press.

Representative BYRNES of South Carolina. Now, as a result of that, the intent of the board certainly seemed to be misunderstood, and that the officials were told——

Mr. HARDING (interposing). I do not think the intent of the board was misunderstood so much as it was deliberately misrepresented.

Representative BYRNES of South Carolina. Well, the effect of deliberately misrepresenting it was to cause the banks to curtail credits. Isn't that the condition to which you have referred in the district in which Senator Norris lives—that they received their information from the officials, who were deliberately misrepresenting the board?

Mr. HARDING. I do not think that is true, because the volume is greater now than it was last May.

Senator NORRIS. What do they have to pay? You raised the rate, did you not? Would not that alone prevent these bankers from making loans?

Mr. HARDING. I don't think so.

Senator NORRIS. Does not the rate have anything to do with it?

Mr. HARDING. May I ask what the legal rate of interest is in Nebraska?

Senator NORRIS. Seven per cent.

Mr. HARDING. And in Kansas?

Representative TINCER. Six per cent.

Mr. HARDING. And in Wyoming? Nobody here seems to know. Are any special contracts authorized out there?

Senator NORRIS. Yes; up to 10 per cent.

Mr. HARDING. The Kansas City district rate is 6 per cent. Any bank can borrow an amount equal to one and one-half times the sum of its paid-in contribution to the capital of the Federal reserve bank, plus its reserve balance at a 6 per cent rate.

Senator NORRIS. That is a high rate, is it not; a rediscount rate?

Mr. HARDING. The rediscount rates are relative. It is not a high rate. The Bank of England rate is 7 per cent.

Senator NORRIS. What was the normal rate, before you increased it?

Mr. HARDING. In 1915 we had a 3 per cent rate and did not do any business at that rate, because nobody wanted to borrow money.

Senator NORRIS. And then you raised it?

Mr. HARDING. We raised it from time to time, yes, sir.

Senator NORRIS. Do you mean to say the banks would not pay 3 per cent but were glad to pay more?

Mr. HARDING. I do not know how glad they are, but in 1915, they had no occasion to borrow money; they did not want to borrow money at any price.

Senator NORRIS. It was not a question of rates then; they did not need the money?

Mr. HARDING. I do not think the rate cuts much figure in restraining a bank which is obliged to borrow, but prevents others from overlending merely for the sake of profit.

Senator NORRIS. Is not the power given to the Federal Reserve Board particularly with a view of having them curtail their credits? Is not that the real object of it?

Mr. HARDING. The act says, in section 14, that the Federal reserve banks may establish, from time to time, rediscount rates, subject to the review and determination of the Federal Reserve Board, which rates shall be fixed with a view to accommodating commerce and business. In section 13 there is a provision defining what kind of paper may be eligible for rediscount by Federal reserve banks. Broadly speaking, a provision is made for the eligibility of bills and notes which are issued or drawn, or the proceeds of which have been used or are to be used for agricultural, commercial, or industrial industrial purposes. It goes on to say, however, that nothing in this act contained shall be construed as preventing the discount of such paper, defined as eligible above, and that notes issued or drawn for the purpose of carrying merely investments, or issued or drawn for the purpose of buying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States shall not be eligible for rediscount by a Federal reserve bank. That is something that complicates the whole situation. At the time that act was passed the United States had a debt of something less than a billion dollars, and most of that was pledged as security for national bank notes. Now, since the war, the United States has a total indebtedness of approximately \$25,000,000,000. and every bond, note, and certificate issued by the Government in borrowing that vast amount is acceptable as security for notes running as long as 90 days, or as security for member banks' notes running not longer than 15 days, and notes so secured are eligible for rediscount at a Federal reserve bank.

Now, you can see what would happen if we were to attempt to put in any artificial rate. Federal reserve bank discount rates must be based upon the current rates for credit. The experience of the Bank of England has been that it must always fix the official bank rates slightly higher than the current rate. That is the case over there to-day. The official rate of the Bank of England is 7 per cent, and the current rate is about 5½ per cent.

The Federal Reserve Board adopted a policy in order to assist in the war financing which was economically unsound. I say this frankly. Congress authorized certain loans. It authorized the Secretary of the Treasury to determine the rates at which the loans should be issued. The Secretary of the Treasury asked the advice of experts and then fixed the rates of interest to be borne by the several issues of bonds, notes, and certificates. During the time we were actually at war, something like \$18,000,000,000 of bonds were sold to the people, an amount certainly in excess of the normal investment power of the American people in such a short time, and the only way in which those loans could be financed was through the instrumentality of the banks. The only way the banks could undertake to do it was to get some assistance from the Federal reserve banks and at a low rate. The low rate of interest borne by these bonds was fixed with a view of holding down the expenses of the Government as far as possible. Anyway, that is something the Federal Reserve Board has no responsibility for. In order to make possible the

floating of these bonds we fixed a rate less than their coupon rate. Some member banks announced that for a period of six months there would be a rate of $4\frac{1}{2}$ per cent on notes secured by Government obligations. The result was there was no loss to subscribing banks pending the distribution of the bonds to the public. There were successive bond issues. The principal reason why discount rates were not increased earlier than they were in 1919 was on account of Treasury financing.

Representative LAZARO. Would it not be easier for the farmer to borrow on his agricultural products from his member bank, if he had his products stored in a United States bonded warehouse where his products would be weighed and licensed by grades?

Mr. HARDING. I think it would; yes, sir.

(And thereupon the committee took recess until 2.15 o'clock p. m.)

AFTER RECESS.

The committee resumed at 2.30 o'clock p. m., pursuant to recess.

STATEMENT OF HON. WILLIAM P. G. HARDING, GOVERNOR FEDERAL RESERVE BOARD, WASHINGTON, D. C.

Senator NORRIS. Governor, the secretary of the Farm Mortgage Bankers' Association of America, Mr. Edward D. Chassell, 112 West Adams Street, Chicago, has a question or two he desires to ask you. It might be as well to permit him to do so at this time.

Mr. HARDING. As you may prefer, Mr. Chairman.

Senator NORRIS. Mr. Chassell, you may proceed to ask the questions you have in mind.

Mr. CHASELL. The questions I wish to ask I will preface by a statement, and that is, before recess for lunch you called attention to the fact that the increase in discounts had become so rapid that you became afraid that an era of disastrous speculation would arise. I believe your statement was that the discounts from August, 1919, until, approximately, the 1st of January increased at an angle of 45° , and that at that time you immediately proceeded to call a halt, and that—

Mr. HARDING. We are not so much interested in speculation as such, but we were concerned in maintaining the safety of the Federal reserve banks. We found that unless the expansion was checked we would soon come to the end of our resources.

Mr. CHASELL. I think that was true, and no one will criticize an effort to prevent that. Then instructions went out to the banks and others to curtail increases at least, and to keep the discounts down, and I believe that you said the increases from then to this time have been only at the rate of an angle of 2° . That was to prevent speculation. It was to prevent money going out for a carnival of speculation. Just before adjourning I understood you to say that a reasonable amount of increase in discounts at the present time would not be objectionable—that many country banks had not discounted to their limits. At the present time, or within 120 days, there has been suffered by farmers a disastrous depression in farm products.

Mr. HARDING. Since the 1st of August there has been quite an appreciable increase in accommodation given by Federal reserve

banks. This is natural at this season of the year. We have taken care of that.

Mr. CHASSELL. At the present time we are up against a disastrous situation, which situation is admitted without debate to exist. In meetings I have attended recently farmers have stated that they are willing to stand depreciation and loss, but that they object to having their products go down 50 per cent when the articles which they have to buy in order to produce their crops have dropped a very trifling amount.

Mr. HARDING. Well, you know that manufacturers' prices have been cut, the wholesalers' prices have been cut.

Mr. CHASSELL. Yes, but farmers do not buy from the wholesaler or the manufacturer.

Mr. HARDING. The retailers so far have endeavored to maintain prices, I believe.

Mr. CHASSELL. The farmer has to buy from the retailer at the advanced prices. It will be only a matter of six months or such a matter until prices approximate a general level, and do you think it would be disastrous at this time if you were to permit that angle of increase to go back, say, to 45°, for three months or such a matter, in order to take care of this calamity which threatens agriculture? As far as I am concerned I represent the merchant. We are merchants of credit. We buy farmers' credit and sell it in the market.

Mr. HARDING. I think, from a banker's viewpoint, any such radical increase in credits as you have just suggested, would be regarded as a gamble. If it turned out all right we would be considered very fine people; if it turned out wrong we would be very justly condemned.

Mr. CHASSELL. Of course there is this thing about it, as you stated this morning, that a large part of the credit that has been carried has been bond credit to take care of investments in Government bonds. That was not the original purpose of the Federal reserve banks.

Mr. HARDING. Loans of Federal reserve banks which are secured by Government obligations have sharply declined in the last 14 months. They have gone down from \$1,800,000,000 to about \$1,200,000,000; but the increase in commercial loans has more than counterbalanced that reduction.

Mr. CHASSELL. That is very true, but the original purpose of the act was to take care of production and commerce. At the present time agriculture is faced with a disaster as to which the situation confronting no other industry is comparable. That is, the situation which faces agriculture is so much worse than the conditions which face other industries that some immediate and earnest attention must be given the matter.

Mr. HARDING. In the law there is pointed out how the needs of commerce and agriculture shall be provided for. We can not exceed our powers in providing for these needs.

Mr. CHASSELL. Don't you think you might materially increase rediscounts, or that you might pass the word around among the banks that it would be perfectly legitimate to increase, temporarily, the amount they may loan to farmers in order to carry their stocks until readjustment comes, and thereby have all keep the same general price level? Perhaps the loans might not be increased at an angle of 45°, but perhaps it might be an angle of 15° or 20°.

Mr. HARDING. Don't you think the bankers know what their rights and powers are already?

Mr. CHASSELL. I was talking to a gentleman in Kansas City a few months ago and he told me it was necessary to pay 15 per cent to the Federal reserve banks on account of some of their loans; that they had a sliding scale in operation down there, and I understand that is one of the reasons they do not increase loans in the Federal reserve district. I thought it might be possible to handle that situation without running the interest rates up so high.

Mr. HARDING. I recall some figures, back in 1907, when the total deposits of national banks were about \$5,000,000,000 and the total loans were about \$4,700,000,000. On the 22d day of August, just a few weeks in advance of the panic of 1907, the total bills payable and rediscounts was about \$59,000,000, or 1.26 per cent of their total loans and discounts. On corresponding dates in 1908, total rediscounts and bills payable of all national banks was about \$53,200,000, or 1.11 per cent of the total loans and discounts. In September, 1914, when we had quite a disturbance in business, at the outbreak of the European war—and we had emergency notes out at that time—the total borrowed money of all national banks had reached the then unprecedented total of \$150,000,000, or 2.34 per cent of their total loans and discounts. On the 12th of September, 1916, the year before we went into war, the total borrowed money of all national banks had declined to \$91,000,000, or 1.16 per cent of their total loans and discounts. We entered the war in April, 1917. We had the first Liberty loan in June, 1917. On the 11th of September, 1917, following the subscription by the banks and the public to the first Liberty loan, the total of the borrowed money of all national banks was only 3.09 per cent of their total loans and discounts. In the fall of 1918, when we had had two more Liberty loans, the total borrowed money of all national banks was equivalent to 12.8 per cent of their total loans and discounts.

In the fall of 1919, after the flotation of the Victory loan, the total borrowed money of all national banks was 13.04 per cent of their total loans and discounts. And on the 8th of September, 1920, after a 12-month period, during which there had been no new Government financing, but, on the contrary, the total debt of the Government had been decreased over \$1,000,000,000, the total rediscounts and bills payable of all national banks had advanced to 16.8 per cent of their total loans and discounts—a jump from 13.04 per cent to 16.8 per cent, at a time when the Government debt had been reduced, so none of that increase could be attributable to Government financing, but to increase in long-time investments, land purchases, commodity holdings, speculative enterprises, and commercial business.

This is a very significant change. To put it in figures, I want you to compare \$59,000,000 of borrowed money of all national banks just before the panic of 1907 with \$2,299,000,000 of borrowed money of all national banks on the 8th of this last September.

Mr. CHASSELL. That is very true, but there have been economic revolutions in the last 14 years, so that the figures for 1907 as compared with the figures of 1920 would not show a fair comparison along that line without the proper explanations.

Mr. HARDING. You compare the figures of 1920 with the figures of 1919, and the borrowed money was \$1,500,000,000 as compared with \$2,299,000,000, so there is an \$800,000,000 increase in national banks' borrowings in one year.

Mr. CHASSELL. To get back to the original proposition, isn't it true that the original purpose of the Federal reserve banks was to take care of commercial business rather than speculative matters or investments?

Mr. HARDING. The real purpose of a good milch cow is to give milk. But if you can not get more milk from a cow than that is your limit, and you can not get any more milk from a cow than she is able to give. The purpose of the Federal reserve banks is to assist in commercial, industrial, and agricultural enterprises and operations. But you can not squeeze more credit out of the Federal reserve banks than they are able to give.

Mr. CHASSELL. Perhaps I misunderstood your statement made before lunch that it would not be against the interest of the Federal reserve banks if they loaned more money through more general utilization of discount privileges by an increased number of country banks.

Mr. HARDING. I would like to ask you a question: I think it has been brought out here that there is no market for some agricultural staples. For instance, wool and certain grades of cotton. We have got another wool clip coming on next spring. We have no protection against the importation of wool from foreign countries. There will undoubtedly be some more cotton produced next year. The market for low grades of cotton is closed. Germany is the principal market for low grades of cotton. A certain proportion of the cotton, no matter how carefully the crop is harvested, is always low grade. Suppose the Federal reserve banks should encourage member banks to increase their loans and encourage member banks to come along and increase their rediscount accommodations with the Federal reserve banks, and we have another accumulation of wool and cotton? Suppose there should be another large corn and wheat crop. We now have an exportable surplus accumulated. Then what is our position going to be next fall?

Mr. CHASSELL. Well, I will be glad to answer that for you in a moment, but I prefer not to be diverted from my question at this time. I understood before lunch that the cow, to use your illustration, was still able to give milk but that the country banks were not asking for the milk. Now, my question is whether or not if the country banks were encouraged to ask for that milk, how much you would find it perfectly legitimate and reasonable to give them?

Mr. HARDING. There are a number of country banks that have only to apply for Federal reserve bank accommodation in order to get it. But they have not applied for it.

Mr. CHASSELL. That is just what I want to get at. This situation as far as agriculture is concerned is actually like it was at San Francisco after the big disaster—it is a peculiar and unusual condition. If you have the money, then the situation is the same as the cow that could give milk, but does not do so.

Mr. HARDING. I do not think the Federal reserve banks are in a position to pick out a bank and say: "You have not borrowed any money from us. Come along and borrow some." The bank might

say: "We do not need any." And then perhaps you would have the Federal reserve bank say: "Then you must make loans, so as to borrow some."

Mr. CHASSELL. Have not some banks in some localities reduced their loans?

Mr. HARDING. I do not think so. I have not seen any indication of it, except in New York City.

The sliding scale of interest does not seem to be very well understood. The Federal reserve banks which have not adopted the sliding scale of interest have adopted a flat rate. For instance, the New York bank has the same rate of interest as the bank of England, 7 per cent. In Minneapolis they have not the sliding scale, but have a rate of 7 per cent. In Kansas City and St. Louis and Dallas they have the sliding scale, with 6 per cent as the basis, and then $6\frac{1}{2}$ per cent and 7 per cent and $7\frac{1}{2}$ per cent and 8 per cent and $8\frac{1}{2}$ per cent, and so on.

Representative TINCER. Let me ask you right there, how high do you go?

Mr. HARDING. The sliding scale only applies to the excess, and the average rate charged any bank, as far as my information goes, does not exceed the local contract rate that bank is able to get for its loans.

Mr. CHASSELL. Have not some of the banks paid as high as 15 per cent?

Mr. HARDING. As a top notch; yes. But you must take the average. Take the Kansas City district, with the sliding scale, and apply it to all banks that are borrowers and the rate charged by the Kansas City bank is not as high as 7 per cent—it is about $6\frac{1}{2}$ per cent, the general average all the way through.

Mr. CHASSELL. It was a Kansas City banker who was objecting to paying 15 per cent, or $15\frac{1}{2}$ per cent, I forget which rate he specified.

Mr. HARDING. I might say that the law prescribes that these discount rates shall be initiated by the directors of the Federal reserve banks. Quoting from subsection (d) section 14, from memory, each Federal reserve bank shall have the power as described in subsections (a), (b), (c), and then you get down to (d), to establish rates of discount to be charged on separate classes of paper, subject to the determination and approval of the Federal Reserve Board the rates of discount being charged being adjusted to the requirements of commerce and business. The Federal Reserve Bank of Kansas City has nine directors, three of whom are appointed by the Federal Reserve Board, and the other six elected by the member banks of that district. For instance, you have on the board of directors of that bank, selected by the banks of the district, Mr. Mitchell, president of the Denver National Bank, Denver, Colo.; Mr. Gibson, who is a business man, I think, of Muskogee, Okla., but resides the most of the time in Kansas City; ex-Gov. Bailey, of Atchison, Kans., a banker; Mr. Burnham, of Norfolk, Nebr.; Mr. Byrne, of Omaha, Nebr., and Mr. McClure, who is in the cattle business in Kansas City. We have had a few letters from Kansas City complaining of the progressive rate, and we have called attention of the writers to the law, and said that if the rate was objectionable to take it up with the directors of the Federal Reserve Bank of Kansas City, and that any recommendation made to the board by the Kansas City directors for a change of the rate would immediately be given consideration; but so far we have had no recommendation.

Mr. CHASELL. I draw the conclusion from the tenor of your remarks that it would be all right for me to send out word to a few hundred of our correspondents that the Federal Reserve Board has no objections to local banks discounting more agricultural paper for a reasonable length of time if their present amount discounted is not in excess of their credit limitation?

Mr. HARDING. I do not want to do anything that might embarrass the directors of the Federal Reserve Bank of Kansas City in working out the difficult problems confronting them. I have been in frequent correspondence with the officials of that bank, and they assure me that they are doing their best to meet the requirements of their district. They can only do that by calling on other reserve banks for help.

Here is the situation: A year ago when the agricultural districts were booming and there was a big demand for cotton and all agricultural products, and the manufacturing industries of the country, which are located to a considerable extent along the northeastern Atlantic seaboard, were also very busy filling orders, the pressure in Boston, Philadelphia, and New York was tremendous. New York, of course, occupies a rather unique position being the Nation's financial center, the pressure there is constant, for when manufacturers and the big merchants do not want money at a particular time somebody else does.

You can see that when wool was selling for 75 cents a pound and cotton \$225 a bale, it took a good deal of money to finance the New England textile industries. About a year ago the Federal reserve bank at Boston had depleted its normal reserves and was calling on other Federal reserve banks for assistance. It had borrowed, if I remember correctly, on the 1st of December, 1919, \$75,000,000. It borrowed that money from Dallas and from Richmond and from Atlanta and from St. Louis. But now the manufacturing business in the Boston section has slackened and with a light demand locally they have accumulated quite a large reserve, running about as high as 60 per cent, and they are able to rediscount for other Federal reserve banks in districts where the demand is heavy. Philadelphia for a period of 12 months was constantly indebted to other Federal reserve banks in an amount ranging from \$40,000,000 to \$50,000,000, and it had borrowed money from the Federal reserve banks in the agricultural sections. But last May the manufacturing and jobbing business slowed down, so that there was less local demand for money, and Philadelphia is now loaning about \$40,000,000 to other reserve banks.

The Cleveland district is rather a unique district. That district embraces the big cities of Cleveland, Pittsburgh, and Cincinnati, and there is quite a diversification of industry. In Kentucky there is tobacco, and in Ohio there are farming interests, and all of the various manufacturing enterprises, like steel mills in Youngstown and the Mahoning Valley and the big concerns around Cleveland, as well as the steel mills in Pittsburgh. But the local demand in the Cleveland district for money has so fallen off now that Cleveland sometimes advances as much as \$140,000,000 to other Federal reserve banks. In other words, to-day Cleveland is lending twice as much money indirectly to banks in other Federal reserve districts as to its own member banks.

Suppose the situation should change? Suppose there should be a demand for money in Boston, Philadelphia, or Cleveland? Suppose there should be a withdrawal of member banks' deposits requiring the extension of larger accommodations to the banks in these three districts? Then Boston, Philadelphia, and Cleveland would have to call upon the western and southern banks to pay back some or all of the money they have borrowed of them. We have always got to regard the Federal reserve bank situation not altogether with reference to the 12 banks of the system as a whole but from the standpoint of their individual position; because the Federal reserve system is not a central banking system. We have not simply one bank, but 12 independent units, each bank independent of the other banks, although under the Federal Reserve Board as the governing body.

The Federal Reserve Bank of Kansas City has a reserve on its own basis of about 18 per cent, Minneapolis slightly under that, and Dallas about 18 per cent. That does not give them very much lending power because their reserves are small as compared with banks like Cleveland, Chicago, Boston, New York, which are the larger banks of the system, and the loaning of a few millions of dollars more would entirely exhaust the reserves of these smaller banks. They would have no reserves to fall back upon, and would have to depend upon the resources of the other reserve banks for their existence.

Senator NORRIS. It seems to me that this loaning back and forth from one bank to another is really in accordance with the intent of the Federal reserve act.

Mr. HARDING. Section 11 provides that any Federal reserve bank may rediscount with another Federal reserve bank, but it must be done under an affirmative vote of five members of the Federal Reserve Board.

Senator NORRIS. And that has been done by the eastern banks when they have had great demand for money, have borrowed a whole lot of money from other banks. Now, from Dallas, Kansas City, Minneapolis, comes a demand from the agricultural communities. Wouldn't it be carrying out the spirit of the act to let them get money from these other banks?

Mr. HARDING. It is only a question of arithmetic. We do not have to run into very large figures when we see that the reserves of three or four Federal reserve banks would disappear entirely. As a matter of fact, early in 1919 there was so much cotton carried over in the Dallas district that the independent reserves of that bank were entirely wiped out; for a period of four weeks they had no independent reserve whatever; they were dependent upon their borrowings from other banks.

Senator NORRIS. I suppose that came about because they were carrying the agriculturists of that community, and that was their duty.

Mr. HARDING. The lending power of a Federal reserve bank is based upon its gold reserve in good finance. If you want to go upon a paper basis it is only limited by the ability to print paper money. But the board is not going to be put in the attitude of throwing this country off the gold basis. We carried on the war without going off the gold basis, and we had every form of our currency redeemable in gold and as good as gold. Of course, it is a

matter in the discretion of Congress. If you want to consider going off the gold basis and going on to a paper basis, that is up to you gentlemen.

Senator NORRIS. I can not see how it has a tendency to do that. When you say Philadelphia and other eastern reserve banks were borrowing from western reserve banks, there was no tendency to go off the gold basis.

Mr. HARDING. Suppose a situation should arise where all of the banks needed money at the same time?

Senator NORRIS. But that is a condition that does not exist. We would have to meet it when we got to it.

Mr. HARDING. It is not an impossible condition. We have had a situation in the last three months where as many as eight of the Federal reserve banks were borrowing from other Federal reserve banks at the same time, and only three were able to respond.

Senator NORRIS. Suppose when Philadelphia wanted to borrow you had said: You can not do it because these other banks might need the money.

Mr. HARDING. What I mean is that should we encourage the general policy everywhere for everybody to borrow all the money they want to borrow, without reference to the reserves, and depleted the reserves of the entire section, where would we be?

Senator NORRIS. No; I do not think anybody is asking that that should be done. Mr. Eugene Meyer, jr., of New York, former managing director of the War Finance Corporation, wishes to ask you some questions. Mr. Meyer may now proceed.

Mr. MEYER. Gov. Harding, you were managing director of the War Finance Corporation until the spring of 1919, and were a director thereof for quite a while thereafter, were you not?

Mr. HARDING. Yes.

Mr. MEYER. I would just like to ask you some questions in connection with the general financial situation of the country and the possibilities and usefulness of the War Finance Corporation. You stated this morning that the troubles we have been discussing in a general way did not come so much from borrowing as from the fact that the debt now existing on goods that can not be liquidated puts the borrowers in a position where they can not pay off those debts in the reasonable and normal way. The important thing therefore in your judgment is the matter of marketing of goods rather than an increase in the loaning facilities, I infer. Is that right?

Mr. HARDING. I think so. Let me say right here that in 1914 there was a situation which I think Senator Heflin will recall very well, when the trouble was confined mainly to cotton; cotton went down to practically where there was no market for it. It was not salable at 5 or 6 cents a pound. Nobody seemed to want it, and there was no way to get it out of the country, and we heard a great deal of calamity talk all that fall. Times undoubtedly were very serious in the cotton section. There was a great demand for loans. At that time the Federal reserve banks had not been organized, so that there was nothing that they could do; and emergency notes had been issued under the Aldrich-Vreeland Act, which had been resorted to, and although there were only \$386,000,000 out at one time, which looks like a mere bagatelle now, yet there was a great demand for additional credit. The farmer could not sell his cotton and it was

said there must be some way devised to help him to carry it. Then there was a plan worked out to organize a cotton loan fund of \$100,000,000. It took some little time to work that out and get subscriptions available. While that was being worked out we were told that the demand was not so much for money for loans, but that what the farmer wanted was a market for his cotton. Anyhow, plans were carried out, and the announcement was made about this time of the year in 1914, that the cotton loan fund was ready to make loans. The applications for loans from that fund were less than \$30,000, and the total loans made were only about \$18,000. This indicated very clearly that, after all, the demand from the southern cotton farmer was not so much for additional loans as it was for a market for his cotton. He had the place to get the money, but he did not care to avail himself of the relief offered by the cotton loan fund.

But a little later on relief came in the way of a greater demand for cotton, and in 1915 we got on a fairly good basis in that respect, in which condition we remained until recently.

Mr. MEYER. That is a very interesting incident, because it showed how much harm can be done by a temporary collapse, and how good it is, even if the collapse is temporary, to do something to mitigate the intensity of the situation.

Mr. HARDING. I think that is pretty good evidence that there was no real demand for new loans.

Mr. MEYER. But by that time the most of the producers had been frozen out of their cotton. The most of it had been sold to speculators, and they got the money. I can not see that the example of 1914 is a perfect illustration of the course of events, or proof that everything was done in a good way.

Mr. HARDING. I think the staying powers of the cotton farmer are about as good as those of anybody else.

Representative HEFLIN. I want to say that those farmers were very much hurt that fall by the low price of cotton and the inability to reach the market; they suffered a good deal.

Mr. HARDING. They managed to recover within a few years.

Representative HEFLIN. It took them a few years to recover; there is no doubt about that.

Mr. MEYER. You spoke this morning of the prospective value of the Edge law bank. In New Orleans they are considering the organization of a cotton export corporation, and a \$100,000,000 company is being discussed in Chicago for next year. The Secretary of the Treasury looks upon them as a solution by private genius. Would it be helpful in this way: If they can sell their own securities to investors on a business basis, and can sell cotton and other farm products to markets that can not buy for cash, in that way the producer will still have his goods and pay off the small banks, and the small banks will pay off the larger banks?

Mr. HARDING. If those concerns can find a market for their securities it would help.

Mr. MEYER. I just wanted to discuss the method of it. And then the larger banks in the central cities would be able to reduce the obligations they have to the Federal reserve banks. So that a million dollars, we will say, of goods will be exported that would not otherwise be exported, and that would mean a relief of how much?

Mr. HARDING. I think it might pay off \$4,000,000 or \$5,000,000 of debt.

Mr. MEYER. That is exactly what I wanted to know. It may interest you to know, Gov. Harding, in connection with this New Orleans cotton export corporation, which is being financed for \$6,000,000, with an authorized capital of \$12,000,000, that it has all been subscribed. It has not gotten organized effectively and in operation yet, but the presidents of some of the banks, testifying before a Senatorial committee in public session at New Orleans, stated that if the War Finance Corporation had continued to function this organization to export cotton would have been organized long ago, and perhaps several others.

Mr. HARDING. I do not know about that.

Mr. MEYER. I am telling you about it.

Mr. HARDING. I am rather inclined to doubt it.

Mr. MEYER. One of the men testifying, Mr. Hecht, is the leading spirit in this institution you look hopefully forward to.

Mr. HARDING. You have heard the story of the Arkansas traveler, of course. A man went down and saw the cabin of a native which had a hole in the roof, and it was raining like the mischief, and the water pouring in. He asked the inhabitant of the cabin, "Why don't you fix your roof?" The inhabitant said, "I can't, it is raining." This man passed through there again and the sun was shining. Noticing that the hole was still in the roof, he asked "Why don't you fix your roof?" The inhabitant replied, "I don't need to: it isn't raining."

Representative HEFLIN. But now it is raining on the farmer all over the South, and in the West, too.

Mr. HARDING. Yes. I want to say that I went to Memphis in April, 1919, and I pointed out to a convention there the dangers of this situation. I thought I foresaw a trying situation coming on, and I was rather apprehensive about it last fall, but rather missed my guess then, but it has come up now even stronger that I anticipated. I suggested at Memphis the advisability of organizing a \$100,000,000 company to finance cotton. I pointed out that if the large importers, the men interested in exporting the cotton, raw or manufactured, did not take an interest in this matter nobody else was going to pay any particular attention to it; that unless the cotton men themselves took the matter up nobody else would. At that time the War Finance Corporation was functioning, but I pointed out that if they would go ahead it would be a good thing. They discussed the plan for two or three months and then dropped it.

Mr. MEYER. Yes, you and I pointed out that if they would do that it would be a good thing. And I want to point out to you that Mr. Claiborne's contention is that if the War Finance Corporation had been functioning this would have been done 18 months ago.

Mr. HARDING. I agree with you that the bankers were slow a year ago, but in May, when the War Finance Corporation suspended, the bankers were considering the formation of several different Edge Act corporations. And I may say this, that the Edge law was only passed in February of this year, and the Edge law is the law under which the corporations you refer to are to be organized. That was three months before the War Finance Corporation suspended operations.

Mr. MEYER. But the one that was to be formed was with the understanding that we would help them if they formed it. They have done nothing. The head organizer of this \$6,000,000 bank is strongly in favor of the War Finance Corporation, and goes on to say that it would be many times more helpful and they could act more promptly if they had the War Finance Corporation's cooperation. As to this other corporation we are looking to hopefully, the principal man concerned in that idea has made the same statement to me privately, although it was not made before a Senate committee.

Mr. TINCER. Who is he?

Mr. MEYER. I would rather not mention his name because I am not authorized so to do, but he is one of the leading spirits in that corporation.

If the War Finance Corporation could assist in the exportation of \$250,000,000 or \$300,000,000 or \$500,000,000, say, of additional exports, whatever the exports may be, if that much more could be added, on a sound basis, and we had \$100,000,000 of obligations from sound concerns, some of them through new corporations to be formed, your idea is, taking the same ratio, four or five times that amount, that would liquidate \$2,500,000,000 of credit now frozen in this country. Wouldn't that add the biggest thing you could do to relieve the whole situation in this country in the matter of credit strain? That is what I want to know.

Mr. HARDING. I think undoubtedly it would relieve the banks a good deal.

Mr. MEYER. Wouldn't it relieve the congestion in trade and commerce that is hanging so heavily on business?

Mr. HARDING. It would do it at least in a temporary way. But have you considered the other end of it?

Mr. MEYER. What other end of it?

Mr. HARDING. Where you may get off. You might say that if we had the \$10,000,000,000 we have already advanced to Europe, the situation would be relieved. But I understand we are not even getting interest on that.

Mr. MEYER. You are familiar with the operations of the War Finance Corporation in connection with foreign trade, and you do not expect the corporation will lose 5 cents on its loans, do you?

Mr. HARDING. I do not know about that.

Mr. MEYER. I will say that it will not. Every debt has been paid at maturity. There will be no losses, although there may be some delay.

This railroad congestion last spring had something to do with increasing the volume of loans, in your opinion, didn't it?

Mr. HARDING. It was given as a cause, yes. You see ordinarily in the month of January and February there is a good deal of natural and voluntary liquidation resulting from the sale of agricultural products which come on to market the previous autumn. The trouble last spring was that liquidation stopped in the middle of January. Loans were on an ascending angle in November, and then we got off the peak a little until the middle of January, and then they went up again.

Mr. MEYER. The railroad congestion had a good deal to do with the marketing of farm products, and also held up high prices, which everybody is condemning, and meanwhile, while high prices were in

effect in this country, Australian and Argentine wheat was marketed, because they were shipping in ships where there was no congestion. Therefore the farmers of this country are suffering from an unparalleled condition—the interest rate and difficulty in getting loans, in spite of the price collapse, stand at the top. Therefore your problem is an orderly marketing of products, and anything that will assist in an orderly way in the marketing of American products will mean a great deal in relieving the strain on the banks. Isn't that true? [A pause without reply.] I think it is true.

Senator KENYON. What do you say about it, Gov. Harding, do you say anything?

Mr. MEYER. I mean anything in an orderly way and on a sound basis.

Mr. HARDING. Yes.

Senator KENYON. The witness ought to answer the question.

Mr. MEYER. I waited for the answer, but the answer did not come.

Mr. HARDING. I did not quite understand that it was a question but rather thought it was an observation or an argument.

Mr. MEYER. I intended it as a question, and put the question at the end of the statement.

The Secretary of the Treasury said if the War Finance Corporation was resumed everybody would be on the same basis. Of course, everybody would be on the same basis, taking the circumstances into consideration.

Mr. HARDING. Everbody would be on the same basis as far as the right to make application is concerned.

Mr. MEYER. But you will remember that we refused to make any loans—

Mr. HARDING (interposing). That is, everbody is on the same basis of having the right to go to a commercial bank and make application for a loan, but that is no sign that everybody would be accommodated.

Mr. MEYER. But the board was pursuing a policy that was wise and intelligent at the time.

Mr. HARDING. You and I served together on the War Finance Corporation, and we considered a great many applications that were turned down. That a man made application for a loan was no evidence that he would get the loan. He had to show that he came within the purview of the act and had satisfactory security.

Mr. MEYER. You will remember that we always refused to finance any exports to China or Japan, and even this spring, in excess, when we were considering loans.

Mr. HARDING. I do not know about this spring because I left the corporation in February.

Mr. MEYER. Well, we did, as a matter of fact.

The Secretary of the Treasury stated this morning that the Treasury should not be asked to take securities that business men will not take. It is your understanding, of course, as it is mine, and as it is considered under the law, that the securities sought to be taken, have to be taken by the business man before the business man can take it to the War Finance Corporation. In other words, the securities that the War Finance Corporation took were the securities of the business man himself, I mean, the securities that the business man himself had taken, plus his own obligation.

Mr. HARDING. I think the Secretary pointed out that accommodation would be given only to the exporter and not to the man primarily interested.

Mr. MEYER. The point is that the Secretary says the Treasury should not be asked to take anything a business man would not take. As the War Finance Corporation only made loans to business men, it would not be asked to take securities that a business man did not take, plus the obligation of the business man or banker. The fact is that the price decline has not produced deflation in the total loans of the banking system of the country. And what is now needed is marketing of goods. And it would appear that anything which is sound and safe, anything which private enterprise can do, would be helpful in liquidating the total loan account, and that the marketing of a million dollars of indebtedness from the original producer would liquidate four or five times that amount when translated up through the system.

Mr. HARDING. I think we are in substantial agreement on that.

Mr. MEYER. The figure of \$4,000,000,000 of suspended indebtedness between the United States and Europe, and I have seen those figures; what do you think of their reliability?

Mr. HARDING. I do not know.

Mr. MEYER. Have you any confidence in them as being a correct reflection of conditions?

Mr. HARDING. I have seen nothing to prove them.

Mr. MEYER. Nor have I.

Senator FRANCE. The Chase National Bank gave out a statement to the effect that it was about \$3,500,000,000. Ordinarily a statement of the Chase National Bank is worthy of consideration.

Mr. MEYER. The Chase National Bank did not give out the statement. They published an article in one of their bulletins.

Mr. HARDING. I do not know how so large a volume of exports has been financed. Take the exports for October, they are surprisingly large, and I do not know how they have been financed. I have been told that they have been financed on short bills, and then I have asked: "Were the bills paid at maturity?" I do not know whether they are paid by passing them along to somebody else and let that somebody else carry the load awhile, and then pass it on around the table, or how. Of course, the only way Europe can pay us just now is in goods or services—unless we make some loans or investments over there. There is another way that may have been overlooked: It may be that some of the nationals of Central European countries who have emigrated to this country are making remittances home, and it may be possible that those remittances have been used.

Mr. MEYER. Exports of cotton in 1917 were \$600,000,000 and in 1919 \$1,137,000,000. But while dollar exports of course are interesting, yet bales are even more interesting. Exports in 1913 of bales of cotton, especially sea-island and linters, were 8,585,000 bales, and in 1919 they were 2,000,000 bales less, which is a more indicative figure than mere dollar value.

Mr. HARDING. It is more significant, but if you have any figures to show what the exports of cotton are as of August 1 of this year or the year before they might be interesting.

Mr. MEYER. I have figures for from September 4 to November 27, the first 12 weeks of the new season, and the total this year in bales is about the same as last year. Of course the dollar value would be very much less.

Mr. HARDING. The Department of Commerce gave out a statement which, if printed correctly—I saw it in the newspapers—would indicate that during October, 1920, the value was a little bit greater than the value of the cotton exported in 1919.

Mr. MEYER. That is correct. But the exports of cotton in the month of November, for four weeks of that month, are 250,000 bales less than last year, and the price being very much more the dollar value would be very materially lower. The fact is that the relative exports of cotton shows a marked decline for the last few weeks, both in dollars and in bales.

That is all I wish to ask, Mr. Chairman.

Senator NORRIS. Gov. Harding, we are particularly anxious, if you can help us, to reach some method by which we may relieve the present condition of producers of foodstuffs. Can you suggest anything that can be done to relieve the situation? In your judgment, is there anything that can be done?

Mr. HARDING. Do you mean by congressional action?

Senator NORRIS. By any action. And that would mean, whether Congress can do anything or one of the executive departments, or your board, or anybody else can do anything.

Mr. HARDING. As far as the board is concerned, I think I have suggested the only means of relief we know, which is to try to allay the feeling of extreme alarm and let the people know that the banks will be reasonable with them, and that if they will do the best they can the banks will reciprocate by doing the best they can and ease the situation along. Of course the Congress, acting on behalf of the people, can do whatever it thinks best in its wisdom. I think if you wanted to put the public treasury back of the whole proposition you would give temporary relief, but as to the permanent effectiveness of the thing, that is a matter you would have to consider.

Then there is another thing to consider, if I may suggest it—it seems to me—if you are talking about legislation—if I were a member of the Congress I would not only consider the existing emergency itself, which is a great one, but I would consider the effect of any action taken at this time on the situation which might exist a year from now, or two years from now, and satisfy myself thoroughly that the proposed relief would be effective and permanent and that there would be no likelihood of a repetition of the same conditions another season; for, after all, there is a limit to what the people of the United States as a whole can do.

Senator NORRIS. It is fair to assume that another season could not get us into this condition, because the farmers and stock raisers will not then be confronted with the high cost of production that they have been confronted with. They are confronted by the fact that they have produced a big crop under a system of the highest cost that ever prevailed anywhere in the world.

Mr. HARDING. You do not contemplate, I presume, any measure of relief that would be so very effective that would inspire the farmer with the idea "Now is the time to come on and get even. We may have to take a loss on this crop, but probably the cost of producing

the crop next year will be less, but get us out of this emergency, and if necessary we will come back for more help next year."

Senator KENYON. Do you think the farmer better produce less? Is that a remedy? Should he work shorter hours and have less production the coming year? That may be the remedy he will resort to.

Mr. HARDING. It is quite likely he may adopt that plan.

Senator NORRIS. It looks now as if he would be compelled to do so. Would we be justified in reaching the conclusion and making it public that the Federal Reserve Board has no intention of curtailing any loans that have been made to farmers or producers of cotton or foodstuffs?

Mr. HARDING. The Federal Reserve Board does not make any direct loans to farmers or to those in any other industry.

Senator NORRIS. I understand that they do not, but those loans reach the Federal reserve banks, and I want to know if we would be justified in making public such a statement.

Mr. HARDING. It is the member and nonmember banks that makes the loan. I do not know what the intention of the banks is. They may be willing to carry some loans along and others they will call.

Senator NORRIS. That does not reach the question.

Mr. HARDING. The Federal Reserve Board has announced and insisted ever since its annual report of 1919 that it was not seeking any drastic deflations; that it was not deflating for the sake of deflating; that it assumed no jurisdiction over prices; that its policies and rates were not made with a view to affecting prices one way or another; and that it was merely trying to maintain a safe banking system in this country. It follows in the present situation that you are not maintaining a safe banking situation if you force debtors into bankruptcy and have the banks carrying a lot of dead loans. I think the banking sentiment all over the country is that the banks are only and quite naturally anxious to get themselves in a safer position. They realize that credits in the degree granted last year possibly were not warranted and that more credits were granted probably than they themselves should have granted and even more than the borrowers wish now had been granted.

Representative UPSHAW. The papers down South have carried the last two or three days, and those papers have just reached here to-day, the statement that Senator Hitchcock was proposing a bill that would bring into use the accrued earnings of the Federal reserve banks to serve the present emergency. I am just wondering if you know or have any suggestions as to what possibilities might come out of that.

Mr. HARDING. Senator Hitchcock showed me the bill the other night that he had prepared, in which he proposed to enlarge the powers of the farm-loan banks by authorizing them to make loans to cattlemen and to farmers direct on commodities in warehouses. My recollection of his bill is that he provides for loans as long as two years on breeding cattle. And I want to say that it is a very important matter, that the breeding-cattle situation be attended to. Mr. Meyer and I had some experience with the matter of breeding cattle when on the War Finance Corporation. A loan for two years is not usually considered a desirable loan for a commercial bank, but the cattle business is one that affects everybody in the Nation. Our meat supply depends upon the prosperity of the cattle business,

and also the meat supply of the peoples of other countries depends upon the cattle produced in the United States, more particularly in the western section of the United States. A unique thing about the cattle business is that it must in great part be conducted in sparsely settled communities, where they have not the local banking power to take care of it. Cattlemen are dependent upon loans secured from banks of other sections, and those banks have been in the habit, when money was easy, of taking cattle paper at high rates as an investment, and then if it did not suit them to renew the loans when they came due they would let somebody else take them.

The conditions that have come up during the war and since the war have put the cattlemen in a very hard situation, and the stock of breeding cattle has been reduced. We found out from considering these loans in the War Finance Corporation that the trouble was not so much on the loans made upon cattle in the spring to be slaughtered in the fall, but that the main difficulty was in getting loans on young calves and breeding stock that required about a two-year accommodation. I do think that the cattle business stands on a pedestal apart from everything else, and I think that everybody will agree that that particular phase of the agricultural problem is entitled to very serious consideration and demands relief. This bill of Senator Hitchcock's provides for this additional power to the farm-loan banks, and it strikes me as rather an ingenious suggestion, because the answer to any argument of class legislation could be made by pointing to the fact that if there was any class legislation, then, when the farm-loan banks were established, it ought to have been raised. At this time the activities of the Farm Loan Board are practically nil because of the litigation in the Supreme Court; but if the Congress should enlarge the powers of the farm-loan banks to enable them to make direct loans, under the proper restrictions, to the cattle interests, I believe that great public good would be accomplished. Of course if the result was not only an increase of our breeding stock but a reduction of bank loans which are now being carried on that stock, it would relieve the banking situation, releasing funds for shorter loans.

Senator Hitchcock's bill provides that farm-loan banks can make loans to farmers on their products in warehouses, and he provides for an issue by the Farm Loan Board of notes or debentures to the extent of \$100,000,000, under such terms as may be arranged by the Farm Loan Board and the Secretary of the Treasury. Then he provides further that section 7 of the Federal reserve act, which relates to the distribution of excess earnings in the shape of a franchise tax, which are paid by the Federal reserve banks into the Treasury, be amended so as to provide a third alternative. As it stands now the money received into the Treasury as a tax from the Federal reserve banks can be used in two ways: (1) They may be applied as an additional reserve against greenbacks; or (2) they can be used to buy notes and bonds of the United States. We have not a large volume of greenbacks outstanding, only \$346,000,000 in round figures, and already have a reserve against them of 47½ per cent. The greenbacks have been cut up into \$1 and \$2 and \$5 bills, and I do not think anybody is bothering about the reserve for them. I think that is a past issue. As to the purchase of bonds and notes of the United States, of course, in view of the \$25,000,000,000 debt,

I do not think the question as to whether the Treasury has \$100,000,000, more or less this year or next year for the retirement of those bonds, for which a sinking fund has been provided anyhow, cuts much figure.

The Hitchcock bill provides that the Secretary of the Treasury may have a third alternative, under section 7 of the Federal reserve act, of applying the excess profits, or the franchise taxes of the Federal reserve banks, to the purchase of these proposed debentures to be issued by the farm loan banks, to the extent of \$100,000,000, only for the years 1921 and 1922. That would mean that he could use the \$70,000,000, approximately, which the Federal reserve banks expect to pay into the Treasury the 1st of January, and the \$30,000,000 more next year. If that money were applied to the general agricultural situation existing, \$100,000,000, I do not believe would go very far in affording real relief. It might have a psychological effect. It might possibly stimulate the banks to come along and make loans on commodities in warehouses where they are indisposed to do at the present time. But when you consider all the wool, wheat, corn, and cotton in the country that the holders may want to borrow on, you can see that \$100,000,000 is a mere drop in the bucket. It seems to me as a matter of practical relief, if anything is to be done with the bill of Senator Hitchcock, which he is proposing to introduce, that the more effective thing would be to have it take care of the breeding cattle, because that amount of money would take care of them, and the banks would then have that amount of money released for other uses.

But in discussing this matter, which is a delicate one, as I am a member of the Federal Reserve Board, which is not an administrative department of the Government, but a banking board, I am reluctant to intrude my opinion in matters which relate to Treasury functions. As I see it we are not concerned in the amendment of section 7 of the Federal reserve act if it only relates to the distribution the Treasury may make of the taxes the Federal reserve banks are going to pay. I think that is a matter between the Congress and the Treasury Department, to thrash out. Of course, the Congress may do what it pleases about the matter. It is something the Federal Reserve Board has no direct concern in, and we feel that we would be going out of our way if we took a hand in this bill one way or the other. I am merely discussing it here in answer to Mr. Upshaw's question; but I do think that instead of trying to distribute this money among the farming interests in general it should be used for the breeding cattle business in particular, and that in that respect it would be a great relief.

Representative UPSHAW. Another thing—but may I say before asking the question, although it hardly touches this immediate matter—that a great many people want to know about it, and I tried to prove my enthusiasm and friendship for the Federal reserve banks by issuing the very last statement before I came to Washington in the shape of an urgent appeal that every nonmember bank in Georgia, 700 in number, should join the Federal Reserve System, so as to get the benefit of financial fellowship there to be had, and also that they might have the privilege of any aggregate efforts, which they seemed to feel was necessary, in such a great system. I am enthusiastic about stabilizing the influence of the

Federal reserve banks on the finances of the country, but I would like for Gov. Harding to put into my mouth, as a friend of the Federal Reserve System, one or two arguments that I might use in answering some of these criticisms. One is that I heard a man say, a man who knows much more about finances than I do, that he felt the Federal reserve banks ought not to be making as much money as they are making, and that under no circumstances ought they to charge as much interest as they are charging. I heard a very able man say the other day that if the Federal reserve banks only charged 5 per cent it would enable the banks down in our section of the country to get hold of the blessings of the system a great deal easier and better. Now, Gov. Harding, that is a friendly question, and I just want to be equipped for an answer.

Mr. HARDING. Does the committee wish me to answer that question?

Senator CAPPER. I heard that same criticism, and have heard it a great deal.

Senator KENYON. Senator Owen has made the criticism.

Senator NORRIS. We would like to have you answer that question.

Mr. HARDING. Yes; I know that Senator Owen gave his statement to the press the other day, and I made public my answer this morning.

Let us take these up one at a time. The Federal reserve banks have been criticised for their large earnings. It has been pointed out that on the basis of their capital stock they earned about 100 per cent in 1919, and that they are earning upward of 150 per cent for the year 1920. They are charged with profiteering, and the argument is made that the fact that the excess earnings go to the Government does not improve the situation because it puts the Government in the attitude of profiteering.

I might say that the Federal reserve act relieves the Federal reserve banks of all taxation—national, State, and municipal, except as to real estate owned by them; that the excess earnings the Federal reserve banks are allowed under the act of March 3, 1919, to apply to the creation of a surplus fund until they have accumulated a surplus equal to 100 per cent of the subscribed capital, after the Federal reserve banks shall have accumulated the surplus provided by law, and after paying 6 per cent to their stockholders, they can still retain 10 per cent of the earnings remaining as an addition to their surplus fund, and pay over 90 per cent to the Government as a franchise tax. At the close of business December 31, this year, all Federal reserve banks except two, those at Dallas and St. Louis—

Senator NORRIS (interposing). You do not mean 31st of December this year, do you?

Mr. HARDING. Yes, sir. All Federal reserve banks except Dallas and St. Louis will have accumulated a surplus of 100 per cent of their subscribed capital, and they will make payments to the Government in the shape of an excess profits tax, and we estimate that amount at from \$65,000,000 to \$70,000,000. The earnings of the Federal reserve banks depend upon the volume of business done by them—that is, on their loans and investments plus the rate of interest charged. Of course if the total invested assets are *a* and the average rate of interest is 6 per cent, the net earnings after deducting expenses will be so much. If the volume of business should be *aa* and the

rate of interest is lowered from 6 per cent to 4 per cent, it still follows that the earnings will be larger at the lower rate of interest than at the higher rate of interest because two things must be considered—not only the rate of interest on the investment but the total volume of invested assets. In the present circumstances an abnormally low rate of interest would merely increase demands upon the Federal reserve banks, and assuming that they were able to meet the demand, disregarding the reserves, their volume of invested assets and their earnings in spite of the low rate of interest would be greater.

Senator NORRIS. Hadn't you taken an assumption there that is not fair to take?

Mr. HARDING. I do not think so.

Senator NORRIS. When you assume that the business would be increased.

Mr. HARDING. I might ask this question, but I don't want any answer to it, although each Senator and Representative present may figure it out for himself: If the Federal reserve banks should put in effect a rate of 4 per cent or $4\frac{1}{2}$ per cent, bearing in mind that every Government obligation may be security for a loan eligible for discount, the Federal reserve banks, I think, would increase their loans.

Senator NORRIS. That the Federal reserve banks would not permit at all.

Mr. HARDING. They have discounted in large volume notes secured by Government obligations.

Senator NORRIS. You are assuming something you would not do.

Mr. HARDING. No; that is not the situation, because the reserve banks have not declined any loans secured by Government obligations, and they do not want to be put in that position.

Senator NORRIS. You would decline them if there were too many.

Mr. HARDING. The law is very particular as to the purpose for which the proceeds are applied, except in case of notes and bonds of the United States.

Senator NORRIS. The law does not compel you to make a loan.

Mr. HARDING. No; the law does not compel us to make a loan, but when you consider the number of banks that have not borrowed any money at all and the pressure they would have from their customers to come in and borrow money on bonds put out, you will see the banks would be in a helpless situation unless they declined to make loans on Government bonds.

Senator NORRIS. Nobody would expect you to loan unlimited amounts on Government bonds. I am not saying you ought not to loan more now, but at least you must not assume, or you ought not to assume, that you would loan to all applicants that might come in.

Mr. HARDING. We have assumed that an abnormally low rate of interest would increase our volume of loans. We base that assumption on our experience last year. We found when we maintained a low rate of interest that our loans went up, increased about 50 per cent in four months.

Senator NORRIS. I am not controverting that. It might be well for you to increase your loans.

Mr. HARDING. But to continue the argument a little bit further on this tremendously important proposition, I will also state that the Federal reserve banks are authorized to issue notes which are obli-

gations of the Government of the United States, providing the issuing bank has 40 per cent in gold reserve and 60 per cent in commercial paper to secure them. There are now outstanding \$3,325,000,000 of Federal reserve notes. The law provides that the Federal Reserve Board may at its discretion impose an interest charge on Federal reserve banks, the rate to be fixed by the board, and that this fund be paid into the general fund in the Treasury. The board is not obliged to impose an interest charge, but if may do so. We could not very well impose an interest charge of less than 2 per cent. That is because it is the minimum rate that any bank will pay on bank balances; it is the rate the Treasury gets from depository banks which carry Government funds. An interest charge of 2 per cent on the Federal reserve notes outstanding would amount to \$66,000,000 this year, which is just about the amount the banks are going to pay to the Treasury out of excess earnings. So that if we had imposed an interest charge on notes, then the net earnings would not have been large enough to cause any comment. In view of the profiteering charge, it is only fair to state the case in another way: An ordinary bank has capital stock which is contributed by its stockholders. It gets its deposits from the public.

Of course, if an ordinary commercial bank should make 150 per cent on its capital stock, unless supported by an abnormally large surplus, it could be charged with profiteering. But a Federal reserve bank is unique in this: It does no business with the public; its stockholders pay in a limited amount as capital stock, and this 150 per cent is calculated on this comparatively small amount of capital stock. The total paid-in capital stock of all Federal banks is about \$100,000,000. But the stockholding banks are obliged to contribute an additional amount in that they are required to carry their lawful reserves with the Federal reserve banks and on these reserve balances they receive no interest. So the percentage of earnings of the Federal reserve banks if expressed in terms related not to capital stock alone but to the total contributions of their stockholders, that is capital, plus reserve balances, will be barely 7 per cent.

I think this is a perfectly fair statement. If you were considering a public utility enterprise, you would want to find out what the actual investment was. You would not want to allow earnings on a capitalized franchise, but you would allow a fair return on the actual money contributed to the business by the stockholders; and in the case of the Federal reserve bank the stockholders have contributed \$100,000,000, which is called capital stock, and they have also contributed about \$1,800,000,000, in the form of reserve balances, and the earnings therefore are based then not on \$100,000,000 but on \$1,900,000,000.

Senator NORRIS. You are really figuring that result on your deposits, as a matter of fact, which would be the same thing?

Mr. HARDING. On the stockholders' contribution.

Senator NORRIS. I understand that. But if you had a bank that the stockholders put up the capital, they would also be depositors. You would not figure it on deposits.

Mr. HARDING. How far would we get on this kind of a proposition? Suppose I went out in your State and tried to organize a bank with \$100,000 and should have the stockholders put in \$200,000 as surplus. That would be \$300,000 the stockholders put in; and then have a

agreement on the part of every stockholder that during the life of the bank that he would carry with the bank a balance, without interest, equal to 18 times his stock contribution; and then we would have a bank with \$100,000 capital, \$200,000 surplus, and \$1,800,000 deposits; and then I should say to the stockholders, "All you are going to get out of this is 6 per cent on \$100,000. You have to put in the surplus; let that stay in; you have to put up \$1,800,000 deposits, let that stay in; and you will get your earnings on 6 per cent on \$100,000 capital stock; and all the rest goes to the State as franchise tax."

Senator NORRIS. Governor, I do not think you have given a fair illustration. These banks have got to make their deposits somewhere, and the law provides making them in the Federal reserve bank. If they do not make them there, they would make them somewhere else.

Mr. HARDING. If you will excuse me, I will point out that prior to the establishment of the Federal reserve system the banks did not carry that amount of money anywhere. Each bank carried its lawful reserve all in its own vault, or part in its own vault and part on deposit with another bank, and the vault cash required would have been greater than the reserve requirements in the shape of a Federal reserve bank balance. Your banks in Omaha before the Federal reserve bank act was passed were required to carry in cash in their own vaults an amount equal to 10 per cent of their net deposits, including time deposits, in gold or lawful money, and your country banks in Nebraska had to carry 6 per cent in vault.

Senator NORRIS. They do not have to do that now; that is a benefit they are getting out of this kind of a law.

Mr. HARDING. They take that same money and put it with the Federal reserve bank, and the reserve has been reduced so that the banks in Omaha only carry 3 per cent on time deposits.

Senator NORRIS. It seems to me that does away with your proposition entirely, because you are saying these banks are getting the benefit out of that money.

Mr. HARDING. They are not getting it from the public, but from the banks. The only basis that you ordinarily figure the earnings on is the stockholders' contribution, and the stockholders have contributed everything that the Federal reserve banks have got, except the Government's contribution, which is \$3,300,000,000 of Federal reserve notes; and looking at it in one way, if the Government should get the interest charge which the Federal bank is authorized to impose by the present law, even at 2 per cent, the Government would get \$66,000,000 direct out of that interest charge; and looking at it the other way, from the standpoint of the stockholders' contribution, they are only earning about 7 per cent. So, I do not see where the charge of profiteering comes in.

Then, again, the interest rate charged by a central bank or a reserve bank is not related at all to its dividend requirements.

The Bank of England makes a great deal of money, and I understand it has donated—although it is a private institution—its earnings, over 10 per cent, to the British Government. I am informed that its earnings are greater in proportion to the bank's capital than the earnings of the Federal reserve banks.

The central bank rate ought always to be somewhat higher than the going current rate, because if it is not you simply encourage banks to come in and discount paper for the profit there is in the discount transaction, and I think any banker will tell you that is a vicious arrangement.

Senator CAPPER. Governor, if there is no legislation such as proposed in the Hitchcock bill, what would become of the earnings of the Federal reserve bank as they accrue?

Mr. HARDING. They would be paid to the Treasury, and the Treasury would buy bonds and retire that portion of the national debt.

Representative TINCER. I have had brought to my attention one criticism that is prevalent in a certain section of Kansas which I would like you to go into some detail about, and that is the graduated scale of interest charged. For instance, up in Senator Norris's portion of the Kansas City district, if I understand you, the member banks are not called upon to use their borrowing power to any great extent. Between the section where Senator Norris lives and where I live there is a section of the country where they have a producing community where they have used it, as suggested by the gentleman from Kansas City, and that a good many of the member banks are paying as high as 15 per cent for a portion of their loans. The claim is made that they are perfectly legitimate loans and are made to finance people engaged in production in a legitimate way, and that the condition is caused simply because it happens to be a location where they need to borrow money, but where a year and a half ago the East was borrowing money from the western banks. Do you think that the administering of the law in that way is fair to that section of the country?

Mr. HARDING. It is very difficult to fix a rate that will apply to everybody alike and affect them all in the same way. I can say to you this, however, that that rate was initiated by the directors of the Federal reserve bank at Kansas City, six of whom were elected by the member banks in that district.

Some time ago the directors of the Federal reserve bank at Atlanta put in a progressive rate. They had had a 6 per cent rate with this same progressive schedule, and about six weeks ago the directors of that bank met and decided they would rather have 7 per cent flat rate and do away with the progressive rate. They are on the ground and are the best judges of the situation, and as it looked to them to be the wiser to abolish the progressive rate and establish a flat rate, the board approved their action. If the Kansas City bank wants to do the same thing, while I can not speak in advance for the other members of the board, I can not see any reason why the board should not approve of their action.

I want to make it clear, however, that if it is believed the Federal reserve bank discount rate in any district is working a hardship upon the commerce and business of that district, the matter should be taken up direct with the directors of the Federal reserve bank, and if they can be convinced that there ought to be a change of rate they can recommend a change, and the board here will lose no time in acting promptly upon their recommendation.

Representative TINCER. I understand, however, the Reserve Board here advocated the passage of that law that enabled them to do that?

Mr. HARDING. Yes.

Representative TINCER. I voted against the amendment because I said then it would be enforced in the agricultural sections and never be enforced in other sections of the country. But if the rate of interest is not based upon the fact as to whether or not it is a worthy loan or a good loan, it is based upon the amount of money that the member bank has borrowed from the Federal reserve bank. Is not that true?

Mr. HARDING. Where there is the progressive rate, it is based on that.

There is another matter that I would like to bring up in that connection and that is the Federal reserve bank discount rate and the rate which the member banks charge are not necessarily related. I endeavored to point out sometime ago that under normal conditions the national banks of the country did not borrow an amount more than 1½ per cent of their total loans and discounts, but that under present conditions they are borrowing an amount equal to about 17 per cent of their total loans and discounts. Here is the whole proposition: Suppose you have a bank with \$100,000 of loans, and that bank has borrowed from the Federal reserve bank \$17,000, which is 17 per cent of its total loans of \$100,000. I suppose you have got a contract rate in Kansas of 10 per cent?

Representative TINCER. Yes, sir.

Mr. HARDING. Your bank has a right then to make a loan at 10 per cent. Suppose a bank has been in the habit of loaning money at 8 per cent, and has not always gone up to the contract rate. Is there any reason—it has loaned \$100,000, we will say, at the going rate, which would not be affected by discount operations with Kansas City at all; then it turns around and discounts 17 per cent, or \$17,000, with the Kansas City Reserve Bank, and suppose we say it has to pay 8 or 9 per cent for that accommodation. Does that constitute a reason why it has got to raise the rate of interest on its whole \$100,000 to everybody simply because it has borrowed \$17,000 at a rate almost equal to what it gets?

Representative TINCER. I do not say it constitutes a reason. I will say to you that the facts are that the prevalent rate of 6 per cent has gone to the legal rate of 10 per cent in the localities where they are enforcing the member bank interest rate.

Mr. HARDING. And yet, as an example, in North Carolina and Tennessee, where they have a 6 per cent legal rate and no contract rate, the national banks are still charging 6 per cent.

Representative TINCER. What I am getting at is this, the right or wrong of charging the borrower 10 or 15 per cent interest.

Mr. HARDING. He does not pay 15 per cent on all his loans——

Representative TINCER (interposing). Oh, no.

Mr. HARDING. But another point which you have overlooked, I think, is this: If you take all the member banks in your district, you will find that the borrowings of some of the banks are very large and that other banks have not borrowed at all; but the idea of the progressive rate is to effect a better distribution of accommodations, so that a bank which has borrowed too much money will be restrained by higher rates on its borrowings above its normal line at the Federal reserve bank and that loans would go to other banks, which would

cause a better distribution of loans, more banks would participate, and you would not have so much business in a few channels.

There are different kinds of bankers; some are narrow-minded and others are more progressive; some take things easy and others want to go out for all the business there is in sight. Some were reaching out after business and who are very large borrowers from the Federal reserve bank. The idea was to curb those and yet not to affect the business community. The idea was that when loans carried by a bank were many times in excess of its capital stock there should be a diversion, so that there would be a better distribution of business and give other banks which had not participated an opportunity of coming in.

Representative TINCHER. I wondered if it would not be in the best interest of business to amend the law, not taking away from the Federal Reserve Board the power to raise the rate of interest, but take away the power to put in that graduated scale, and then let the Federal reserve bank exercise discretion and judgment in the amount of money they will loan a bank. I do not think that the customer who borrows the money at 6 per cent and is reinstated and is raised to 10 per cent—

Mr. HARDING (interposing). You know the law as it was passed was not mandatory, but it was left to the discretion of the Federal reserve banks and the board as to whether they would put in this new form of rate. The first bank to put it in effect was the Federal reserve bank at Kansas City; then at St. Louis, Atlanta, and Dallas. Then Atlanta got tired of it and abolished it. So we have now three banks with the progressive rate and nine banks with the flat rate, and I do not know that it matters much whether you change the law or not. I think that an easier way to do it would be to put pressure on your local board of directors out there to get them to abolish it. We approved the abolition of the rate in Atlanta under the advice of the board of directors down there, and if there is any public sentiment against this rate the easiest way is to go before a meeting of the board of directors there and get them to abolish it.

Representative TINCHER. I never heard it mentioned in my own district, but there is a section in the Kansas City district, north of where I live, that there is a good deal of talk about it.

Mr. HARDING. If you would introduce a bill abolishing that rate, there would be banks now being benefited by it who would want you to pass a law reinstating it.

Representative TINCHER. A man has to be well informed to justify a 15 per cent interest rate.

Mr. HARDING. The trouble with that is that while only local interests are affected you would be engaging the representatives of people all over the country in consideration of a local matter which might be better settled by the directors of the Federal reserve bank in Kansas City.

Representative TINCHER. If there is merit in it and the officers of the Federal reserve bank or the directors of the Federal reserve bank in Kansas City are abusing the law, or people have been mistreated by reason of the law, it may be well to take that power away from them.

Mr. HARDING. Take Atlanta. I was quite interested in the application for a change, and we got some particulars about it. We

found that the banks in New Orleans were very much opposed to making any change; that they would rather have the progressive rate. They figured that on account of large capital and large balances they could get cheaper money under the progressive rate in spite of their excess borrowings than on a 7 per cent flat rate. But the bank officials told us that the country banks all over the district were in favor of a flat rate, and they took a vote in the board of directors and I think the member from New Orleans was the only one who voted for continuing at the old rate, and all the rest voted in favor of the new; and the board here approved the recommendation of the board. You might find that condition in Kansas City.

Representative HEFLIN. What was the Atlanta rate last year, Governor?

Mr. HARDING. What time last year?

Representative HEFLIN. Well, October, last year.

Mr. HARDING. Why, my recollection is that it was about $4\frac{1}{2}$ or $4\frac{3}{4}$ per cent.

Representative HEFLIN. Now it is 7?

Mr. HARDING. Yes; and I might state also that their loans are nearly twice as great now as they were this time last year.

Senator NORRIS. Senator Capper, you had a question that you asked the Secretary of the Treasury, and I thought you might like to ask Gov. Harding the same question.

Senator CAPPER. The recommendation is made by the American Farm Bureau Federation that your board be given authority to classify rediscounts. What would your judgment be as to that recommendation?

Mr. HARDING. I think it already has that authority.

Senator CAPPER. That seems to be their first suggestion here as to the measures recommended.

Mr. HARDING. That is the way we read paragraph D, section 14. Accidentally, several years ago we tried this experiment they now want to have us repeat.

Senator CAPPER. Then they have another recommendation here that I would like to have your judgment on:

We would amend the farm loan act so they will be authorized to receive warehouse certificates for commodities deposited under the Federal warehousing act and use these warehouse receipts as a basis for issuing short-time securities—6, 9, 12, and 15 months—and sold on the open market, just as they now do liens on real estate, and use them as a basis for selling long-time securities in the open market.

From a banker's standpoint, what would you think of that recommendation?

Mr. HARDING. I think the salability of these securities would depend upon the market. If the market was active enough to absorb them, you would not need to sell these securities, and if the market like it is now you could not sell them. You would not get anywhere with that.

Senator NORRIS. Do you not think that warehouse receipts based on wheat, oats, cotton, or corn actually in the warehouse would sell?

Mr. HARDING. Senator, there are a good many things to consider here. They might sell on a basis—

Senator NORRIS (interposing). They would not issue the securities, suppose, for the full value of the product on which they were issued,

but would not wheat certificates now, for instance, based on wheat in a warehouse be salable on the market?

Mr. HARDING. I think Mr. Meyer could probably inform you better than I, and his opinion would be worth more than mine on that point. Of course, if you put values down low enough they would probably sell. Here is the trouble about all these things. It was brought out very forcibly at the conference which we had with the wool growers when they came over last May to see us, when the wool market broke so badly. We learned, in advance of their coming, that they wanted the Federal Reserve Board to do for them just what had been done for the cotton people in 1914. They had an idea that special favors were given cotton that were not going to be given anybody else. I discussed the matter with my colleagues on the board, and when they came over here we had gotten out the old cotton loan plan, and we told them that the Federal Reserve Board was not a local board, but a national body, which had members from every section of the country. We told them we were not here to serve one special interest; and that what we had done for cotton we would do for wool. They thought well of that, and said, "We want you to give us a wool growers' loan fund of \$50,000,000." I said, "Very well. Let us consider this"—and I read them the old cotton loan plan. The essence of the old cotton loan plan was, the first thing, the establishment of a loan value. When you go to get people living in other communities where they do not produce these commodities to put up their money as an investment to carry commodities produced a thousand miles away from them, they want to be very particular about the security.

The essence of the cotton loan plan was that the loans were to be made on a basis of 6 cents a pound, in which the Southern banker who took the loan first was to have one-third interest, which we might say was the common stock in the proposition, which he subrogated to the two-thirds interest of the banker in the other section of the country putting up the money. Then the next thing was after the 6 cents a pound loan basis was the 3 per cent guarantee fund out of that, which was made a loan basis of about 5½ cents a pound.

That seemed to fix in the public mind the value of cotton at 5½ cents for middling cotton. The result was that the bulk of the cotton crop of 16,000,000 bales made in 1914 sold on a basis not substantially above 6 cents a pound.

I read that to the wool people, and I said, "What is your idea of the value of wool?" They said, "We have been getting 72 cents a pound for it, but we might be willing to sell now at 55 or 60 cents a pound." I said that the cotton men had been getting 14 cents a pound for their cotton. On the same basis, "I do not believe that we could offer any wool plan to the public on a basis better than 20 to 25 cents a pound for prime unwashed wool, and less for the lower grades. I want to call your attention to the fact that this might fix the value of wool in the public mind." We acted in the cotton matter as individuals and not as a board. "Do you want the individual members of the board to see if we can get up a banking pool over the country to make loans on wool on the basis of this old cotton plan, having a loan value fixed?" They said, "That is exactly what we do not want fixed. What we want is an arrangement where we can go to a bank that knows the responsibility of the wool grower.

and we put up the wool, and we want these loans entirely separated from the value of the wool:" and I said, "We have considered this thing enough. I would like to have those in favor of adopting as the wool plan the old cotton loan plan hold up their hands." Nobody did. I then said, "I would like to have those in favor of scrapping the proposition and putting it in the wastebasket hold up their hands:" and they all held up their hands, and the thing went into the wastebasket.

This is the great trouble about doing anything in the present emergency on an outside basis, where you have to take the loan value, because you sink into the public mind that that is the value of it.

Senator NORRIS. You think if there was wheat in the warehouse and the bankers would loan money on it at 25 cents a bushel that wheat would go down immediately to 25 cents a bushel?

Mr. HARDING. I do not think wheat would go up as a result of that.

Senator NORRIS. You would not expect it to go up?

Mr. HARDING. No.

Representative HEFLIN. I think it would go up if you kept it off the market and furnished the farmer some money and let him hold it.

Senator NORRIS. Yes, if he held it there is not any question but what it would go up then.

Mr. HARDING. The farmers have already got more money on it than that.

Senator NORRIS. And wheat has not gone down to 25 cents a bushel. Therefore, it seems your argument does not work.

Mr. HARDING. I think wheat went up yesterday.

Representative TINCHER. It went up 12 cents yesterday. I think they must have heard about this meeting.

Senator GAY. I hope cotton will hear about it also.

Mr. HARDING. I think the wool men are in about as bad condition as anybody. This applies to the wool and low and high grade cotton men. The staple cotton men, who raise the long-staple cotton and the holders of cotton of grades below middling and the wool people, and people who have corn and oats are really in worse fix than the wheat people, because the wheat people have got something they can sell, but the others are frozen.

Representative HEFLIN. The crop of cotton this year is several million bales short of what the world needs. Germany wants 2,000,000 bales, as I saw stated yesterday.

Mr. HARDING. It is not a question of what the world actually needs so much as what it is able to pay for, and if we could sell all our agricultural products on the basis of the world's needs it would immediately start them soaring. But, of course, the economic demand is different from the theoretical demand. I may have an idea that I need a pearl necklace pretty badly, but that does not create a demand for pearls.

Senator NORRIS. After all, it seems that it gets right back to the point we have been trying to develop something on. The world's supply is not available.

Mr. HARDING. There is the solution to the whole thing. If you can devise some means of translating this theoretical demand based on actual needs throughout the world for stuff and make that a

potential and active economic demand, you would solve the whole problem.

Senator NORRIS. That is what we are trying to get information on.

Senator GAY. Governor, everybody has expressed themselves in favor of the orderly marketing of crops. Are they being, in your opinion, marketed in an orderly way?

Mr. HARDING. I should say not. I do not think there is orderly marketing when there is no buying and no selling.

Representative BYRNES of South Carolina. With the permission of the chairman, I want to ask this question: I am frank to say your statement is most reassuring. Listening to it, I would be led to believe that conditions were all right if I had not recently come from my own home where I found they were not all right. When I find a man whose credit is excellent, who is worth more than \$100,000, a farmer and a business man; who has more than \$25,000 of liberty bonds to offer as collateral for a loan, a director in a bank, and he is unable to borrow \$5,000 from any one of four banks in the city, it is a serious condition indeed. Now, I gather from your statement that condition is due not to any fault of the Reserve Board, but to the action of the officer of the member bank who is either playing safe and is not willing to increase his loans at this time or has loaned money to such an extent that it would be unsafe for him to increase his loans? Is that your idea?

Mr. HARDING. I could form a better idea if I saw a statement of that particular bank.

Representative BYRNES of South Carolina. I did not say one bank; but I said that applied to four banks.

Mr. HARDING. If I could see the statements of those four banks I could form better judgment as to whether they were in a position to make a \$5,000 loan or not.

Representative BYRNES of South Carolina. I would say that in nine counties in my district I do not know of any bank which would to-day loan \$5,000 on the kind of securities mentioned.

Mr. HARDING. What district do you represent?

Representative BYRNES of South Carolina. The second district in South Carolina. Farmers and business men tell me that the same condition exists in their counties that exists in my own county, where I know it is impossible to secure a loan of any size regardless of the security.

Mr. HARDING. Prior to the passage of the Federal reserve act, the law provided that no national bank should be indebted for borrowed money in a sum greater than its paid-in capital stock. I know of some banks in your section of the country which are being accommodated by the Federal Reserve Bank in Richmond to the extent of 12 to 15 times their capital stock.

Representative BYRNES of South Carolina. It is due, then, to the fact that they have loaned more than under the law they are entitled to lend; that, in your idea, is the reason the banks deem it unsafe to make loans?

Mr. HARDING. I do not say that. They may have distributed their loans so that they are all legal loans.

Representative BYRNES of South Carolina. They have not exhausted their credit, but are afraid to do it.

Mr. HARDING. I should say if they have turned down an application of a loan for \$5,000 under the circumstances you have described, with all that security, that they must be in a nervous frame of mind, or else much overloaned.

Representative BYRNES of South Carolina. The statement is they have no money. You say it is not due to the Federal Reserve Board?

Mr. HARDING. Yes.

Representative BYRNES of South Carolina. Here is the thought I have in mind: You may be entirely sincere in your statement, but I am wondering whether or not the member banks have not become nervous because of the various circular letters or bulletins issued, to which I referred this morning.

Mr. HARDING. There is nothing in those bulletins that should cause nervousness.

Representative BYRNES of South Carolina. I want to read from the Manufacturers' Record for November, and ask whether or not these various statements were made in any bulletins that were issued by you. It is stated:

In circular letter No. 94, issued on December 20, 1919, to all member banks, the Federal Reserve Bank of Richmond said: "Our present task, therefore, is to proceed with the deflation of credits as rapidly and as systematically as possible."

Mr. HARDING. On December 20, 1919, I think that was excellent advice. I saw that circular, and I think subsequent events proved the soundness of that advice, because at that time the banks were carrying large loans on cotton, and I know that the Richmond bank was carrying loans on warehouse receipts dated back as far as 1917. I do not think anybody can claim it is good business for a man to be holding over cotton from 1917 with the hope of higher prices on cotton, in the face of an active cotton market such as we had in 1918 and 1919. That is entirely correct, and I will defend that anywhere; that is perfectly sound, and I doubt not that every bank who got that letter will admit they are sorry they did not act on that advice.

Representative BYRNES of South Carolina. With that statement I will agree, but is that what you meant, that your task is to proceed with the deflation of credit as "rapidly as possible"?

Mr. HARDING. At that particular time I should judge that that was good advice. I did not write that circular, it was written by the Federal reserve bank of Richmond, and it was that bank's judgment.

Representative BYRNES of South Carolina. But it was issued with the sanction of the policy of the Federal Reserve Board?

Mr. HARDING. No; they did not consult us about it one way or the other. They have a right to collect their own debts.

Representative BYRNES of South Carolina. As to the collection of debts, I have no doubt. But, then, do we understand that the banks can issue bulletins of this kind?

Mr. HARDING. Congress did not establish a central branch when it organized the Federal reserve system. I have for six years been here trying to do my duty to the public, and have been the target of all kinds of criticism and abuse. I am going to see it through, but it is awfully trying. The Federal Reserve Board is not a central bank. You ought to read the Federal reserve act——

Representative BYRNES of South Carolina (interposing). I have read it.

Mr. HARDING (continuing). And try to understand it more than you seem to understand it. I do not want to be disrespectful, but it is trying. Here is the Federal reserve bank of Richmond, an independent corporation, discharging its duties. Read section 4 of the act there and see what powers Congress has given to the directors of that bank. And yet you ask me if I did this, or whether I am responsible or whether the Federal Reserve Board is responsible for it.

I do say that I think that the advice given in that letter was sound. The Federal reserve bank at that time, I know, was carrying loans on cotton which had been in the warehouse two years, and that the reason they had not sold that cotton was because the owners of the cotton did not think the price was high enough, that it was going higher, and they wanted to hold it for that reason. They have simply helped to complicate the whole situation. If they had gone ahead and liquidated when they could and cleared the way for the next crop, they would not be in such a bad fix as you say they are.

Representative BYRNES of South Carolina. I regret exceedingly that by merely asking if the Federal Reserve Board approved this statement of the Richmond Reserve Bank it has caused you to believe that I fail to understand the purposes of the bill. I have read the bill, and helped in a measure to frame it, even though my understanding of it should not be in accord with yours. My question involves no reflection upon you, nor does it require any statement as to your service here, because we appreciate that. But I desire to ask again whether or not the Richmond or the Kansas City Bank has the right to issue a circular stating a policy which may or may not express the views of the Federal Reserve Board?

Mr. HARDING. They have that right, and they do it.

Representative BYRNES of South Carolina. Then, when we asked you about the policy of the Federal Reserve Board to-day, and you replied, you were answering only for the Federal Reserve Board and were not giving us information as to what has been the policy of the various banks located at Richmond, Kansas City, and other places—

Mr. HARDING (interposing). In matters of policy I am giving you my understanding of it honestly and candidly. So far as I am advised the Federal Reserve Board has no jurisdiction, no powers over the loans of the Federal reserve banks which are made in accordance with the terms of the act. Each board of directors has a perfect right to decline to make eligible loans which they may regard as undesirable. We can only define eligible paper.

Mr. Congressman, how in the world would you expect a board of five or six men here in Washington to pass on all the individual credits all over the United States?

Representative BYRNES of South Carolina. As you ask me the question, I do not expect the Federal Reserve Board members to do that, and that is in no way involved in my question.

Mr. HARDING. It is absolutely impossible for the Federal Reserve Board under the law and as organized to consider all these individual credits, but we do feel, and you must admit, that it was not good policy for banks to be carrying cotton for two years, in the face of an active cotton market. They ought to have forced the borrowers to pay up the loans, instead of waiting for the Federal Reserve Bank of Richmond to write that letter. The Federal Reserve Bank of Richmond advised them to prepare for the conditions that exist this year,

in an honest effort to put the bank in position to take care of the bona fide producers this year instead of the hoarder or speculator, because that is what a man is who made cotton three years ago and who is holding it and has been holding it all this time for an advance in value.

Representative BYRNES of South Carolina. I do not for a moment think that the Federal Reserve Board should have control over the individual loans of member banks, because we know that is impossible. I am simply asking as to a question of policy. Questions of policy are referred to here in a circular that is issued by the Richmond Reserve Bank to member banks.

Mr. HARDING. That was last December. I do not think any member would take any exception to that expression.

Representative BYRNES of South Carolina. What I am asking is whether or not the Federal Reserve Board passes upon a statement of this character, and, as I understand you, it does not.

Mr. HARDING. The Federal Reserve Board does not pass upon circulars issued by Federal reserve banks.

Representative BYRNES of South Carolina. Then, as to this statement of December 20, though the Federal Reserve Board did not pass upon it, you state it was in accordance with your views at that time, for the reasons you have given.

But, now, on April 26 a circular letter, No. 95, to member banks said:

It is a recognized function of the Federal Reserve System to exercise control over the volume of credit and currency * * *

It is recognized to be unsafe to go further with commodity prices at such a dangerous height * * *

If all the banks in this district will earnestly and conscientiously endeavor to limit credits to necessary activities for production purposes, insist that the burden of carrying loans on Government securities shall be gradually assumed by subscribers, etc.

The same conditions, I presume, would cause you to agree with these statements issued by the Richmond reserve bank at that time, or are you not in favor of it?

Mr. HARDING. I do not recall that circular. If I had written that circular, I might have worded it differently. But I think they were on the 21st of April justified in advising their member banks to reduce their rediscounts.

Representative BYRNES of South Carolina. The circular letter issued June 21 by that bank says:

Immediately upon the passage of the amendment we issued our Circular No. 95, in which we expressed the belief that if all banks in this district would earnestly and conscientiously endeavor to limit credits * * *. We have sent out information intended to enable all member banks, and particularly those borrowing rather heavily from us, to cooperate with us intelligently for the conservation of credit.

On August 24 another circular letter said:

We had been conducting a campaign for the conservation of credit for more than a year * * *. If we can all pull together, however, for a while longer and continue to exercise the greatest possible care in the granting of further credit, etc.

On September 23 the circular letter to member banks said—and I presume this is the last—"It is in our opinion more important than ever that great conservation should be used in granting of credit, etc."

Here is a thought that suggested itself to my mind—I have no other information than the statements contained in this magazine

which has gone out to the business men of this country: Now, if your Federal Reserve Board does not investigate these bulletins or circulars, can you then state what declarations of policy have been made in the circulars issued by the various reserve banks of this country?

Mr. HARDING. I can, because we get a copy of all letters which are issued by the Federal reserve banks, but we do not get advance copies. We know what their policies are. We can not treat these men and officers who have had long experience in banking administration as though they were schoolboys. They have certain rights and powers given them by Congress, just as Congress has delegated to the Federal Reserve Board certain rights and powers. But certainly I do not think anyone would expect that the officers of a Federal reserve bank would either have to apply to the Federal Reserve Board before they could write some bank who borrowed money or send it a circular. Those are merely isolated extracts from circulars meant to distort the facts. The entire circulars were not published. You can take any kind of a statement and prove most anything if you want to use isolated sentences. I want to let you know, if you do not already know it, that the particular periodical you hold in your hand for more than 12 months has been exceedingly bitter toward the Federal Reserve Board and its policies.

Representative BYRNES of South Carolina. I think that it has.

Mr. HARDING. And it has done everything it possibly could to excite disgust of the board and its policies. It does not give facts and figures; it just merely makes assertions. If anybody wants to abuse the Federal Reserve System or Board and will send its indictment to that paper, it will play it up in box type letters.

Representative BYRNES of South Carolina. I know that it has been criticizing you for more than 12 months and I have disagreed with many of their editorial opinions, but the quotation I referred to cites the dates and the number of circular letters—

Mr. HARDING. But they do not print the full text of the circular letters.

Representative BYRNES of South Carolina. They do in another issue.

Mr. HARDING. I am quite sure that any fair minded committee which is interested in these things certainly would not want to pass judgment on just a few squibs of that nature, but would want to see the whole contents of the circulars, and if you do I will send them up here.

Representative BYRNES of South Carolina. Well, anyway, you take the position that your board is not responsible for those circulars?

Mr. HARDING. I take the position that our board is not cognizant of the circulars before issued. We see them after they are issued. If there is anything in the circulars after they are issued that we think is contrary to the general policies of the system as formulated by the Federal Reserve Board, we will write a letter to the bank and say, "We notice so and so in your circular letter of such and such a date."

Representative BYRNES of South Carolina. That is what I am trying to get at, if after the circular letter is issued there is anything objectionable in it—

Mr. HARDING (interposing). It is not submitted to us in advance.

Representative BYRNES of South Carolina. I understand that. But after it is issued if there is anything in the letter that you deem unwise——

Mr. HARDING (interposing). Then we call their attention to it.

Representative BYRNES of South Carolina. Have you tried to correct anything issued in any one of these orders?

Mr. HARDING. No; we have not.

Representative BYRNES of South Carolina. Then, so far as that is concerned, the board did approve of these policies?

Mr. HARDING. The board never affirmatively approved or disapproved. The circulars are merely on file.

Representative BYRNES of South Carolina. You have stated that if there is any statement embodied in the circular letters to which you objected you would call their attention to it, did you not?

Mr. HARDING. May I ask you what this hearing is for? Am I on trial, or is the Federal Reserve Board on trial, or am I here to give certain information?

Senator NORRIS. Oh, no. The Congressman is not asking any questions trying to reflect on you.

Representative BYRNES of South Carolina. I certainly would not do that.

Senator NORRIS. We would not want anything of that kind attempted that would hurt——

Mr. HARDING (interposing). I would state to the gentleman from South Carolina——

Senator NORRIS (interposing). I think the question is all right.

Mr. HARDING (continuing). That he has not the slightest ground to complain of the treatment that the member banks have received from their Federal reserve banks. I have looked up that situation in the Carolinas some time ago. The banks in South Carolina are now borrowing from the Federal Reserve Bank of Richmond, ten times the maximum they ever borrowed before the Federal Reserve System was established. There is certainly no unfair treatment in that.

Representative BYRNES of South Carolina. If the chairman has no objection——

Senator NORRIS (interposing). Go ahead.

Mr. HARDING. There are some other statements which I could make, but I do not care to do anything to put your banks in an unfavorable light.

Representative BYRNES of South Carolina. I certainly have not complained of any unfair treatment received by the banks in South Carolina. I have not mentioned the subject at all.

Mr. HARDING. But you are quoting from a publication here which has been notoriously unfriendly to the Federal Reserve Board. You are reading certain isolated extracts from circulars sent out at various times by the Federal Reserve Bank of Richmond.

Senator NORRIS. If the claim is made that these quotations are unfair and that the whole circular would give a different meaning to it, I would be very glad to have the entire circular letters incorporated in the record.

Mr. HARDING. I do not care to have them incorporated.

Senator NORRIS. I do not think the committee cares for them.

Representative BYRNES of South Carolina. I have no desire for anything but the facts in connection with the issuance of these circular letters setting forth policies to govern member banks——

Mr. HARDING (interposing). Mr. Chairman, we have 12 banks doing a tremendous business, the total volume of which is six and a quarter billions of dollars. One of the Federal reserve banks has over 52,000 separate pieces of paper under discount. They have frequently issued general circular letters. Whenever general letters are sent to the Federal Reserve Board they are filed. The members of the Federal Reserve Board are very busy men. We have our staff to look into these things. I do not personally read all of these letters because I have not the time to do so.

You do not seem to have any conception of the work we have to do. If there is anything which our staff regards as contrary to our policy, they mark it and bring it to our attention.

Senator NORRIS. I think you have made it plain as to the conditions.

Mr. HARDING. The reason I remember as much about this as I do is that I did get a personal letter from one man who thought he had been badly treated. He said it was true he had some cotton which he had carried since 1917, but that he was worth a certain amount of money and that if he wanted to borrow some money and hold that cotton it was none of anybody else's business. I replied that I did not care how long he held his cotton out of his own resources, but I thought the Federal Reserve Bank of Richmond was right in taking the position that money should not be loaned him to enable him to hold cotton under those conditions if it would prevent other people obtaining money who were engaged in producing cotton.

Representative BYRNES of South Carolina. My questions are directed only to ascertain your attitude toward the questions of policy, and not toward individual cases. If these extracts do not accurately represent the body of those circular letters, I expected you to say so. If I am correct in believing that the circulars are issued by the reserve banks and when they come to your board, if they contain any statements of which the board does not approve, that you issue a statement correcting them. I expected you to say so.

Mr. HARDING. You can be very sure that if a Federal reserve bank issues circulars to which any member bank takes any great exception, the Federal Reserve Board gets letters about it. But the only correspondence we have had about the Richmond circulars was the complaint of a man who did not think he ought to be restricted as to loans on cotton made in 1917.

Representative BYRNES of South Carolina. If that reserve bank issued letters with statements of this character, and it was possible for other banks to issue bulletins unduly cautious or unwise in the use of language in urging restriction of credits, is it not possible that these letters may cause a misapprehension on the part of member banks and make them unduly conservative in lending money to people who are now seeking loans?

Mr. HARDING. The chances are if the extracts referred to had not been published there might have been several hundred people who are confused about the circulars would never had known anything about them. They were addressed only to banks.

Representative BYRNES of South Carolina. You have stated your policy, but do I understand you to say that other banks could have issued circular letters containing advice to member banks which was unduly conservative?

Mr. HARDING. Other banks are writing letters to their member banks every day which I do not see. We do not get copies of all letters which they write but we do get copies of all their circulars, and they are in our files.

Senator NORRIS. Are you through, Governor?

Mr. HARDING. I have nothing further to say.

Representative HEFLIN. Governor, it is a fact that the Federal Reserve System is not functioning in the South as it did last year? Farmers and merchants are not being able now to get money on cotton.

Mr. HARDING. It is a fact, Senator, that your Federal reserve bank has \$40,000,000 of money borrowed from other Federal reserve banks. It is a fact that its loans are nearly double what they were a year ago; it is a fact that it has gone the limit in extending credit. As to what farmers and individuals can do with their own member or nonmember banks I do not know. You must bear in mind that less than one-third of all the banks in your district are member banks; the rest are nonmember banks.

Representative HEFLIN. Have they not complained to you that the banks are not being treated as they were last year? Have you not have had complaints from banks in Alabama?

Mr. HARDING. We have had no general complaints; I have had a few complaints.

Representative HEFLIN. Did you not have the complaint in October that some action of the board had broken the price of cotton?

Mr. HARDING. I was urged while in Birmingham, on the 9th of October, to make a statement that the resources of the Federal reserve system would be available to the cotton producers of the South to hold their cotton until such time as cotton might go to 40 cents a pound, and I declined to make any such statement.

Representative HEFLIN. I think that these conditions that now exist, caused by the war, require that something should be done to tide the farmers of the Southwest over and to keep them from suffering this severe loss which is now upon them.

Mr. HARDING. I will be very glad to do everything in my power to help the farmers of the South and West.

Representative HEFLIN. Are we authorized by your position in the matter of lending money on farm products, local banks backed by regional banks in the Federal reserve system, to give out a statement that you and the Federal Reserve Board do not oppose, but encourage, regional banks in giving the fullest aid possible to farmers in handling their crops so as to enable them to obtain a living profit for their farm products?

Mr. HARDING. The Federal Reserve Board always prefers to make its own statements.

Representative HEFLIN. I know a farmer in my county who has got 45 or 50 bales of cotton, on which he ought to have been able to get \$5,000. He is unable to get any more money, and he mortgaged his farm, having gone into the farm-loan system, as he has a right to do, to obtain money to hold his cotton; and I desire to state for the farmers of my State, so far as I know from complaints I have had, that the Federal reserve system is not now functioning. Merchants are unable to get the money they need; local banks are unable

to get it. That is the condition that exists. I do not know what you hear or what comes to you on paper, Governor, but they are in a desperate condition.

Mr. HARDING. If you will come to my office I will be very glad to show you reports from Federal reserve banks, and I will show you the amount of money the Federal reserve banks in the South are lending to their member banks.

Representative HEFLIN. Whatever it is, it is not sufficient to enable them to handle the crop as they should.

Senator NORRIS. Mr. Meyer wants to get away this evening, and we will hear from Mr. Meyer who has something further to say.

ADDITIONAL STATEMENT OF MR. EUGENE MEYER, Jr., OF NEW YORK CITY, FORMER MANAGING DIRECTOR OF THE WAR FINANCE CORPORATION.

Mr. MEYER. I will not detain you, Mr. Chairman, but a few minutes to take up one or two points that occurred to me in connection with the Secretary's testimony this morning, that need some correction.

The Secretary of the Treasury, as you know, is ex-officio chairman of the board, but was never active in the business of the corporation which was done by the managing director and the other directors.

Senator NORRIS. You are speaking of the War Finance Corporation?

Mr. MEYER. The War Finance Corporation, yes. The business was actually transacted by the directors, the managing director and the officers of the corporation and the counsel. Now, the Secretary of the Treasury stated that if the board were to assume that anybody and everybody could come to it, and it would be a wide open proposition for all kinds of business without any power apparently according to his opinion in the board of directors to discriminate as to the needs and the propriety, the nature of the business, etc. The board of directors, as he would have known if he were more familiar with its operations assume full responsibility for all discriminations that seem expedient and proper in the public interest. I stated here yesterday, that at a time when there was a very good market for curly tobacco, we refused a loan on exports of curly tobacco, whereas in the state of collapse in regard to the Kentucky and Tennessee black patch tobacco we agreed to do some financing. We refused companies, some of them companies that we advanced funds to for European exports or other places where there were exchange difficulties, we refused these same companies equally well secured loans in the case of South America and China at a time when we were exporting gold to China and to South America, on the ground that it was not in accordance with public policy to lend money for the export of goods to countries which were drawing our gold already. That would only have increased possibly the amount.

Senator NORRIS. As I understand it, the board took a broad view of what the country needed and the conditions that were in existence.

Mr. MEYER. Actually interpreted the powers in the national interests.

Senator NORRIS. Exactly. If you were functioning now and it was made possible through some arrangement for you to assist in the exporting of several million bushels of wheat, you would feel

perfectly justified in doing that while at the same time with equally good security you might turn down some other proposition.

Mr. MEYER. Absolutely.

Senator NORRIS. On the ground that it was not in the best interest of the country.

Mr. MEYER. That it is not necessary to the general welfare apparently.

The Secretary and Gov. Harding have both shown in their testimony that with bank loans at the peak, even practically at the peak, the price deflation has not produced the banking deflation; and that that can only be produced by a further liquidation of commodities and increase in the processes of marketing of the crops in an orderly way, so that the loans may be paid up by sales rather than to have loans increased under present conditions in quantity.

This foreign outlet, if the money were raised by the War Finance Corporation from investors as industrial concerns have done it within recent weeks, in my opinion would be the biggest and promptest way in which an increase in the marketing of commodities by sale could be brought about.

Now, then, the question of the estimated suspended commercial indebtedness of four billion is a figure which I have seen, and I have seen attempts to support that figure. As far as I can make out that figure can not be supported in a scientific way, in a way that carries conviction.

The Secretary stated that the countries having the greatest need for our goods which are not now saleable had no securities which business men would accept; yet the fact remains that we had \$100,000,000 of applications, of which 75 per cent were agricultural commodities, at the time that the War Finance Corporation suspended in accordance with the request of the Secretary. In connection with those exports there were perhaps in formation Edge law banking corporations which would have eventuated in connection with those advances which would have served, not only in connection with those advances, but in connection with other business. The Secretary expresses doubt that the War Finance Corporation would help; but there can be no doubt about it in the light of the fact that merchants and the bankers were ready to make exports that have not been made and are not now being made.

The Secretary in his testimony again emphasized the fact that it was a war measure passed during the war; and the fact is, of course—the essential fact of the situation is—that it was passed as a reconstruction measure four months after the war. I wish they might have called it at that time the Reconstruction Finance Corporation, because it would have taken away this power to invoke the prejudice against a continuance of war functions in connection with this, because its power has nothing to do with war activities.

I will say this, that five months after the armistice we made loans to the railroads, as I explained yesterday, under the war power, with the full approval of every member of the administration and the Treasury, and to the great relief of the whole country, after the appropriation failed in Congress, and those loans were only paid off in July of 1919, eight months after the armistice.

The Secretary stated that the power for foreign trade was apparently intended to cover the year. Those were his words. I suppose he meant the year from the date of passage, March 3, but that

involves the assumption that a year after the proclamation of peace would have been a year from March 3; and the President was returning to Paris to continue the conference, and we could not have expected a proclamation of peace for several months after it had been ratified on the other side and brought back and presented to Congress for their consideration. His view on that subject is manifestly a mistake.

Now, on the extension of credits that were made by the corporation the Secretary stated that of the \$46,000,000, 50 per cent were extended to large corporations. I called that to your attention yesterday and the reason is clear. The large corporations having their organizations on the other side, first came to us and had the completed machinery. When we made those loans to those corporations, we did it in the beginning of the collapse, or rather in the most acute stage of the collapse of foreign exchange; and there was a general apprehension in this country that the collapse in that exchange would stop the exports. This is the power that Congress had given them, and a million dollars was given for the purpose of meeting a collapse in exchange; and at that time when it occurred borrowing by the large corporations was not only approved by the Secretary of the Treasury and the Assistant Secretary of the Treasury and the War Finance Corporation, but those loans were positively welcomed because they felt that a great deal of our foreign trade might be implicated in a breakdown of exchange, and it was considered a very reassuring thing psychologically to the business men of the country to have a few large corporations, strong, managed by competent business men, with organizations that understood the situation, come forward and be willing to borrow funds for the purpose of extending these credits.

When the Secretary refers to exports being as large as they are, I think perhaps to some extent the exports that are financed privately were stimulated and made possible to a considerable degree by the action of the large corporations borrowing from the War Finance Corporation and making these funds. As I explained to you yesterday, they were working psychologically as well as financially; and those few loans amounting to perhaps \$20,000,000 on absolutely safe security were made very largely for psychological purposes at the time, and with the full approval and enthusiastic approval of the Treasury.

Representative HEFLIN. Let me ask you this right there: Don't you think that the fact that most of these private concerns in the export business could get money from the Finance Corporation enabled them to obtain it from other sources?

Mr. MEYER. In many cases that is unquestionably true. In fact, the existence of that War Finance Corporation has brought into existence the numerous banking corporations which had in mind and did to some extent cooperate with it and which are very useful now; and if it were allowed to function again a great many more corporations would come into existence which have not with a great deal more promptness.

Representative UPSHAW. Just what is the step necessary to cause this organization to function again?

Mr. MEYER. Well, the Secretary stated this morning——

Senator NORRIS. We have been over that two or three different times in the record.

Representative UPSHAW. Excuse me, I did not hear it; I was not here.

Mr. MEYER. Some kind of directing order from the Congress.

The Secretary also stated that in case of resumption the same corporations—he mentioned these large corporations endeavoring to enlist a prejudice against large corporations in support of his position—would be the ones that would come forward to borrow. At the time that the War Finance Corporation's activity was suspended we had applications for about \$100,000,000. Of that 75 per cent was for agricultural products, and not one application was from any one large corporation that had previously applied or gotten a loan.

Mr. CHASSELL. Would it interrupt you to ask how much you did really advance for the export of agricultural products?

Senator NORRIS. He has told us.

Mr. MEYER. In time of peace, says the Secretary, the Treasury should not be in the banking business. This act was not passed by Congress to go into the banking business. It had no constitutional power to do it. That is a misnomer. This amendment giving this power in connection with foreign trade is for the purpose of promoting foreign commerce.

Representative HEFLIN. You are invoking its use now to meet an emergency?

Mr. MEYER. That is the idea.

Now, the Secretary stated that the Government should not compete with private bankers, yet private bankers are the ones that are almost universally, or certainly 98 per cent of several hundreds that I have met in the last few weeks, in favor of it. So that is merely an argument and has nothing to do with the fact. The Secretary referred to institutions beginning under the Edge law, this large one in the South, and talked about this \$100,000,000 proposition to be formed in Chicago and the \$2,000,000 one formed along time ago. The \$2,000,000 one has done no export financing because they expected the cooperation of the War Finance Corporation at the time, and they came to see us about it, and we suspended directly afterwards. As I explained during my conversation with Gov. Harding, the important people in both this Southern Export Corporation and the large one that is forming in Chicago are strongly in favor of the War Finance Corporation resuming temporarily.

The Secretary of State informs us that the lack of progress in the formation of these corporations privately managed and privately financed is due to the talking of Treasury help. That is directly contrary to the testimony of Mr. Heck, who is the head of the new cotton corporation, who stated before the Senate reconstruction committee that it was the lack of Treasury help that has prevented the formation of these corporations.

The Secretary referred to \$75,000,000 which one corporation proposed to borrow. No corporation was ever in a position to borrow \$75,000,000, because the law limits it to \$50,000,000 in the act. No one would have been given \$75,000,000 or \$50,000,000 even if there was authority. The Secretary talked of what was in the mind of the corporation; I can not tell you what was in their mind, but they certainly would not have gotten such an amount. There was no conversation with our organization that could have justified any such ideas.

Mr. CHASELL. What was the largest amount?

Mr. MEYER. During the war the largest loan was \$20,000,000, in connection with the military requirements of the Government. That loan was granted on condition that the bankers or the corporation in question should offer their securities to the public and we would take up the \$20,000,000 total that was not taken by the public. If it was all taken by the public, then we took nothing. That was the way we worked that.

The Secretary's figures for cotton, as I have pointed out already, for the prewar period, amounting for the year 1913 to six or seven hundred million dollars against one billion one hundred and thirty-seven million dollars in 1919, should not be considered in the dollar amount, but rather in the bales of cotton. Shipments of bales of cotton in 1913 were two million more than in 1919.

I have already stated that the statement that the Treasury should not be asked to take security which business men would not take is contrary to the method of operation of the War Finance Corporation, and shows the Secretary's unfamiliarity with it. Our powers were generally to lend money to American business men, exporters, and bankers who had already made proper arrangements. So that there would be no question of taking risks that business men would not take, because nobody borrowed from us without taking not only the risk that he has to take in his business, but also giving his own obligation.

Mr. SUMNERS. The business men would take the primary risk?

Mr. MEYER. All of it, and give their own additional obligations.

Gov. Harding said in his testimony that the American situation would be vastly improved if trade with Germany were resumed. I think I mentioned yesterday, as a matter of interest to the committee, that we were ready to advance trade with Germany, provided the Administration policies made it possible, that the responsible bankers, responsible American bankers, were ready to do business with Germany and to borrow the means of the War Finance Corporation; so that the War Finance Corporation would be able to facilitate that trade with Germany in a very important way, because the people have been hesitant, in regard to German trade, on account of a fear of being considered less patriotic than some others. But, if the War Finance Corporation, acting for the Government, would show its approval of the resumption of trade, it would hasten the resumption by increasing the amount, increasing the promptness with which that trade was resumed.

I think that is all, Mr. Chairman.

Senator NORRIS. All right. Mr. Meyer; we are very much indebted to you for being with us to-day, and very glad to have had your testimony and your experience.

Mr. MEYER. I appreciate the opportunity and your patience and courtesy in hearing me at length. My only object is to do as much as I can to help in the most critical situation that the American business men, whether they are brokers or merchants, whether they are manufacturers or bankers, have had to undergo.

Senator NORRIS. Well, I think, Mr. Meyer, your information has been of very great and practical assistance to us.

We will adjourn until 10.30 to-morrow.

(Thereupon, at 5.05 o'clock p. m., the committee adjourned until to-morrow morning, December 4, 1920, at 10 o'clock a. m.)

REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

SATURDAY, DECEMBER 4, 1920.

JOINT SESSION OF THE
SENATE AND HOUSE COMMITTEES ON AGRICULTURE,
Washington, D. C.

The committee was called to order by Senator George W. Norris at 10.50 a. m.

Present: Senator Norris, Senator Capper, and Senator Harrison, and Representative Heflin.

Senator NORRIS. Mr. Chassell, you wanted to answer a question that was asked you yesterday that you failed to answer?

Mr. CHASSELL. Yes: I was asked a question by Gov. Harding in which he inquired if it would be any benefit to the farmer to finance him now and permit the present wool clip and cotton crop and other crops to accumulate for a certain length of time pending the raising and production of other crops. I want to say most emphatically that I think it would be advantageous for this reason: At the present time the price of farm products has reached an extremely low ebb. We will all admit, I think, that the pendulum will swing as the prices of other crops are adjusted and that there will be a more equitable level, and probably farm crops will appreciate.

Whether these crops continue in the hands of the farmer or go into the hands of the speculator will make no difference in the ultimate increase in value.

The reason that I think the crop ought now to be financed in the hands of the farmer is so that the producer may get the advantage of the increased value which will necessarily come in the next few months instead of having that profit go into the hands of the speculator who might now buy up these crops at a low price and hold them in terminal elevators and warehouses until they could dispose of them at a profit later.

Senator NORRIS. Now, Mr. Chassell, you present an interesting point. The point is whether we are going to make any loan to any farmer so that he can hold his crop. It is on the theory that later on he will get more money for it?

Mr. CHASSELL. Yes, sir.

Senator NORRIS. And that is what the farmer thinks?

Mr. CHASSELL. Yes, sir.

Senator HARRISON. And you believe that the price of farm products—whether corn, cotton, hogs, or cattle—will go up within the next few months?

Mr. CHASSELL. Well, in the first place, they will perhaps not go up above the prices at which they are quoted in central markets, but will go up above the prices at which the farmer can sell them. It is

impossible to borrow any money on corn, or any money on cotton, as well as on any other farm product at this time. Therefore, the farmer will be obliged to sell his crops at an extremely low price and the speculator who buys them and holds them in terminal elevators and warehouses is not going to buy them with the idea of losing money. He will buy them with the idea of getting an increase in price, and if this price goes up it would be a great deal better that the profit should be granted to the farmer who produces the crop.

Senator HARRISON. Yes, sir; I think that is understood; but the point I am making is, What assurance have you in your own mind that the price is going to go up?

Mr. CHASELL. Well, the world is in need of these products. The reason that they are not marketed now is for lack of transportation facilities and for lack of financial capacity to acquire them. Within the next few months, possibly a year, I think the world will have greater ability to take these products, and hence they will go up. Another reason, this year has been an extremely good year for the American farmer. The production has been very high. It is altogether probable, taking the rule or law of averages into account, that the next crop will be a little lighter. Furthermore, there will be greater activities in manufacturing lines and others and greater available resources, and hence I think there will be no question but that there will be an increase in prices all along the line.

Senator HARRISON. Don't you think that the price would necessarily go up if we were able to make any arrangement with the Governments of Europe, nearly all of whom are in need of what we have to sell, to finance their obligations?

Mr. CHASELL. I think that it would. I think that within the course of a few months there will be an increased demand in foreign countries that will be arranged for in some way, but that if we could now arrange methods of financing those European countries, we would shorten the period of depression in this country and we would also enable the producer to secure a better price, rather than to have him sacrifice at the low prices.

It is only necessary to go back a few years to the time when cotton was so cheap that it was left in the fields when there was no serious condition in Europe as there is now. We have a similar condition now, excepting that we have an artificial condition in Europe which prevents the purchase.

Senator NORRIS. Are there any questions that anyone wants to ask? Well, that is all Mr. Chassell. We are much obliged to you.

Mr. CHASELL. Thank you.

Senator NORRIS. The governor of Nebraska is present, and will make a statement.

STATEMENT BY HON. SAMUEL B. McKELVIE, GOVERNOR OF THE STATE OF NEBRASKA.

Senator NORRIS. Now, governor, the Committees on Agriculture of the Senate and the House are having some joint hearings with the view of trying to devise some method to relieve the agricultural stringency that exists over most of the country and if you have any information you can give us about the condition of the farmer and any relief that in your judgment could be given him, we would be glad to hear you in your own way.

Gov. McKELVIE. Mr. Chairman, and members of your honorable committee, I appreciate this opportunity to contribute anything that I can to the solution of this very important question. I think, however, that I may be able to make better reference to the condition than I can to the remedy. You, of course, are aware of the very serious situation in which the farmer finds himself now. It is the culmination of a condition that has been growing for some time and has now reached a point where it not only menaces the immediate welfare of the farmer and his future welfare, but that of the entire country.

The farmer has quite successfully solved his problems of production until, for instance, in Nebraska this year the crops are larger than they have ever been in the history of the State with 250,000,000 bushels of corn and with about 75,000,000 bushels of wheat added to a surplus that has been accumulating. This surplus that had been accumulating is accounted for in no small part by the fact that the farmer was unable to market his crops at the price that was offered him, though he was willing to do so. There was such a shortage of cars that he could not get his crops to the market. Now, that condition has been relieved, and there is a sufficient supply of cars; but the price which is offered for the two principal crops in Nebraska—wheat and corn—is wholly unremunerative to the farmer and if he were obliged to sell his corn in the markets of Nebraska to-day at the prevailing prices, it would be about half the cost of production. Almost the same is true with regard to wheat.

Our farmers are prosperous, as they are in most communities. They have some accumulated wealth. The farmers who own their lands free from incumbrances will be able to bear this loss, but the tenant farmer who represents about 50 per cent of our farmers is not able to bear the burden and if he is obliged to sell his crops at the present prices, it will mean his financial ruin. He will not be able, except under the most favorable circumstances, in the years that will follow to recoup the loss that he will sustain now and it is going to mean that thousands of these tenant farmers will be driven from the land.

It seems to me that there are three things that are of fundamental importance in connection with the solution of this problem. One of these things has already been mentioned. I refer to transportation. There is now adequate transportation facilities.

The next is adequate finances. The farmer's financial problems are different from those, as you realize no doubt, of other industries. The farmer must have long-time loans. He can not, and does not, make quick turns.

The next thing is the question of distribution. And, after all, I think that is fundamentally the most important question that confronts the farmer and that presents itself to us for solution to-day. It is purely a question of economics, which contemplates the distribution of the products of the land at the lowest possible cost from the original producer to the ultimate consumer.

There has been growing up in this country for years a condition of wasteful distribution and a condition that has enabled certain agencies to render no essential service to obtain a control over the market, until that condition has become highly inimical to the farmer's welfare.

Now, the farmers of Nebraska and of some other States are beginning to find a solution for that through their cooperative societies, and I hope that ultimately cooperation will solve the problem of distribution; but just for the moment the wheat-growing farmers of Nebraska and the Central West and the corn-growing farmers of that same territory have not carried their cooperative program far enough that they are able to borrow to store their products and to finance their operations during the period of distribution. And that seems to me to be the most important problem that is ahead of our country to-day.

The most serious thing is not that the farmer is going to have to take some loss during this readjustment period. I think that the farmer expects himself to bear his portion of the loss that must ultimately come to this period, and it must be borne by other industries and other businesses as well as his own. But should it develop that the farmer is obligated because of inadequate financial facilities, inadequate storage facilities—should he because of these facilities be obliged to place his products upon the market at the present ruinous prices and shoulder his loss, only to see these products pass into the hands of others who could accumulate them and obtain the advantage of credit in holding them and through manipulation and speculation greatly increase the price of these products so that the result of the lower prices of the present would not be felt by the ultimate consumer.

The result of such a condition as that would not be removed from the mind of the farmer or from the influence upon our agricultural condition during the next decade. It is a psychological condition in which the farmer has had to experience the same thing in times past, in that he has sold his products at ruinously low prices only to see those products accumulated in the hands of others, and then the prices greatly increased.

When the world went into the war, was thrown into the war, the farmers of Nebraska were receiving less than 70 cents for their wheat. It did not compensate them for the growing of the wheat. They sold it, nevertheless—millions of bushels went immediately to market, from the fields to the market—and it was a matter of a relatively brief period until the price of that same wheat had doubled and trebled before it was passed on to the ultimate consumer. That was five years ago. The farmer has not forgotten it, and as a result of that injustice there has been growing up in the mind of the farmer a feeling that other interests and even our National Government, has so disregarded the importance of agriculture that he is being obliged to suffer, and there is developing as a result of it a class consciousness that is radical in its tendencies and that is absolutely contrary to the fundamentals of the breeding of the farmer. There is no one, as a result of his surroundings and training, who is more conservative than the farmer himself. The very conditions under which he lives every day cause him to be conservative. And I think you are just as well acquainted with these radical movements as I am that are abroad in the land to-day among the farmers, and it is simply because of these injustices that have been imposed upon the farmers.

What relief may be brought to him to-day I do not know. If it is possible to open the markets that need the farmer's produce and to finance him during the period that these products can be distrib-

uted to those who need them and who will consume them, then it would seem to me to be a highly desirable thing to do.

Senator NORRIS. Now, governor, right on that point you are touching now, it seems to me that is really the vital question before the committees. We have had evidence here, evidence both here and elsewhere—it is generally known, in fact—that there are millions of people almost starving for the things that the American farmer has in abundance and can not sell for enough to pay him the actual cost of production.

The committee would be awfully glad if you can offer any suggestion as to any legislation that would give immediate relief in the way of finance, enabling the crops to be financed so that those who want them could get them and the farmer could get enough to pay him for the actual cost of production.

Now, the people who do need these products are poor, of course, and are not able to pay cash. They are willing to mortgage or to enter into any kind of an arrangement by which they shall pay in time, but they have not the money to do it now, and it seems that the thing that we are most anxious about is how to—two things, probably—first, to finance the farmer so that he can hold his crop temporarily until some method can be entered into by which it can be handled and distributed.

Now, we would be awfully glad to hear from you, Governor, if you have any suggestions as to what should be done or could be brought in relieving those conditions.

Gov. MCKELVIE. Mr. Chairman, this question was discussed at considerable length at the governors' conference that has just adjourned, and I expect that through the newspapers you have been apprised of the condition that was taken.

Senator NORRIS. And yet, Governor, I think that the committee would be glad to have placed in the record any recommendations that the governors' conference has made.

Gov. MCKELVIE. I have a copy right here of the resolutions—they were not adopted, because it is the policy of the conference not to adopt any resolutions whatever—but a committee was appointed and submitted these resolutions, and they were placed on file at the conference.

. (The resolutions referred to are printed in the record in full as follows:)

Gov. T. W. Biekett said: As chairman of the committee, I submit the following report:

The financial situation in the whole country is cause for the greatest concern, but not for despair. All lines of business are realizing heavy losses, but the swift decline of prices of farm commodities to far below the cost of production threatens a national disaster. The situation demands infinite patience and forbearance and supreme wisdom and courage. Nothing but evil can result from anger or fear.

We believe that the tenseness of the situation can be relieved in several ways:

(1) Let every individual do all he can to help and encourage his neighbor. Let there be a complete mobilization of the financial and spiritual assets of every community. Neither God nor the Government ought to be asked to help those who do not first make every effort possible to help themselves. There ought to be a united effort in every community to keep any good men from being destroyed because he can not immediately meet his obligations. Under existing conditions it would be the acme of inhumanity and of unwisdom to force any debtor into bankruptcy if by the most liberal indulgence he would be ultimately able to pay. Business failures do more than wreck business; they oftentimes destroy man.

Liberal indulgences and renewals should be granted by the manufacturers to the jobbers, by the jobbers to the merchants, by the merchants to the individuals. It is no time for a creditor to seize his debtor by the throat and savagely say, "Pay me that thou owest."

(2) Let the Federal Government create a finance corporation of some sort that will enable the people of other lands to obtain from us the commodities they so greatly need but for which they are not able to make immediate payment. We believe such a corporation to be entirely feasible and that its mere creation would substantially help the situation.

(3) The Federal Reserve Board should be urged and authorized to advise all banks to adopt a liberal policy of renewals. The law authorizing six months' credit on agricultural papers should be liberally construed and renewals for a like period should be freely granted wherever it safely can be done. The real wealth of the country is unimpaired. It would be suicidal policy to destroy this wealth by a preemptory call of loans.

If necessary the Congress should at once amend the Federal reserve law so as to temporarily supply additional credit and afford more time to debtors in distress.

We believe that the general adoption by individuals and by the Government of the policies herein suggested would not only afford material aid but would at once supplant the gloom and the fear of the present with that confidence that is so vital to wholesome and successful business.

C. W. BICKETT, *Chairman.*

Senator HARRISON. Will you tell us how many governors were in attendance at that conference?

Representative HEFLIN. And the States represented.

Gov. McKELVIE. I think I can tell that exactly.

Senator NORRIS. If you have a list, you can put any statement that you want to in the record.

Gov. McKELVIE. The governors present were: Arizona, Thomas E. Campbell; Colorado, Oliver H. Shoup; Connecticut, Marcus H. Holcomb; Delaware, John G. Townsend, jr.; Indiana, James P. Goodrich; Iowa, William L. Harding; Kansas, Henry J. Allen; Louisiana, Ruffin G. Pleasant; Maine, Carl E. Milliken; Massachusetts, Calvin Coolidge; Maryland, Emerson C. Harrington; Montana, Samuel Vernon Stewart; Nebraska, Samuel R. McKelvie; New Hampshire, John H. Bartlett; New Jersey, Walter E. Edge; North Carolina, Thomas W. Bickett; Oregon, B. W. Olcott; Oklahoma, J. D. A. Robinson; Pennsylvania, William C. Sproul; South Carolina, Robert A. Cooper; South Dakota, Peter Norbeck; Utah, Simon Bamberger; Vermont, Horace F. Graham; and Wyoming, Robert D. Carey.

The governors elect were: Connecticut, Everett J. Lake; Delaware, William D. Denny; Indiana, Warren T. McCray; Minnesota, J. A. O. Preus; South Dakota, W. H. McMaster; Utah, Charles R. Mabey; Vermont, James Hartness; West Virginia, Ephriam F. Morgan.

I can leave with you a copy of these resolutions, but the substance of the remedy that was suggested by the governors is contained in these two paragraphs:

Let the Federal Government create a finance corporation of some sort that will enable the people of other lands to obtain from us the commodities they so greatly need, but for which they are not able to make immediate payment. We believe such a corporation to be entirely feasible and that its mere creation would substantially help the situation.

That is the first recommendation. The next is:

The Federal Reserve Board should be urged and authorized to advise all banks to adopt a liberal policy of renewals. The law authorizing six months credit on agricultural papers should be liberally construed and renewals for a like period should be freely granted wherever it safely can be done. The real wealth of the country is

unimpaired. It would be suicidal policy to destroy this wealth by a preemptory call of loans.

If necessary the Congress should at once amend the Federal Reserve law so as to temporarily supply additional credit and afford more time to debtors in distress.

We believe that the general adoption by individuals and by the Government of the policies herein suggested would not only afford material aid, but would at once supplant the gloom and the fear of the present with that confidence that is so vital to wholesome and successful business.

Representative SUMNERS. Governor, what did you governors decide is necessary to do in order to deal with this situation?

Gov. McKELVIE. The States feel that the situation is of such national importance that the matter of immediate relief devolves upon the Federal Government. The banks are depending now upon the attitude that has been taken by the Federal Reserve Board and the Federal reserve banks. It is no longer merely a local situation.

Representative SUMNERS. Yes—now, I do not want to interrupt you—I understand that, but I was just curious to know whether the people who undertake to represent the Federal Government in dealing with this general situation can expect anything to be done by the representatives of the States.

Gov. McKELVIE. I will answer that in just this: There is much that can be done by the States, and is being done by the States. And, I will tell you just what has been done by Nebraska, and what we propose to do is to develop further the idea of cooperation that will enable the farmers to solve their economic problems through affording an agency that will enable them to store their products and finance their produce during the period of distribution. That is the thing to which I referred here earlier in my remarks; but that isn't the thing that will bring immediate relief, because the farmers have not carried that far enough.

Representative SUMNERS. My question was not intended as a criticism.

Gov. McKELVIE. I understand.

Representative SUMNERS. But it is interesting to know whether or not at your conference you did determine what the respective States could do and could be asked by the Government to do something to help out in this general situation.

Gov. McKELVIE. If there was a governor in the late campaign who did not understand this situation and discuss it with his constituents, I do not know who he was, because it was the question of consuming importance in the entire agricultural region. And the States are doing as much as they can. Some have not gone as far as others; but they are developing every agency they possibly can that will enable the farmer to help himself.

Representative SUMNERS. Now, was any agreement reached by these governors in this conference that they would undertake any effort among the people of their States or the legislatures of their States?

Gov. McKELVIE. There was not.

Representative SUMNERS. That is what I am trying to get at.

Gov. McKELVIE. There was not.

Mr. BYRNES of South Carolina. Was there any discussion with regard to the reduction of acreage as a means of lessening production?

Gov. McKELVIE. None.

Senator NORRIS. Governor, have you any recommendations to make with regard to relief from this situation?

Gov. McKELVIE. As I have already indicated—may be I have not, but I intended to—we placed on the statute books of Nebraska last year a most comprehensive group of laws relating to cooperation, and the farmers of Nebraska have over 75,000 members in their cooperative societies. These cooperative societies last year did over \$125,000,000 worth of business.

Now, we propose to propose to the next legislature some means of aiding the farmer to finance his operations on long-time loans, some sort of land loan act that will enable him to carry his burden for a much longer period—perhaps 20 years—and in which the State will be the agency that will offer its credit to obtain this money and in turn loan it to the farmer. Some States already do that. South Dakota already has such a law. Oklahoma already has such a law. I can not speak for other States; but this brings relief.

Senator NORRIS. I think Oregon, to some extent, has such a law. I have been told that it has. I am not familiar with it, but I think that they loan the permanent school fund on mortgages on Oregon farms.

Gov. McKELVIE. Exactly. That is being done by both South Dakota and Oklahoma, and we hope to be able to work out something that will be of benefit.

Senator NORRIS. Of course that isn't a large sum; while in one sense it is large, yet in most of the States if you spread that money out over the State it would not be large enough to bring complete relief.

Gov. McKELVIE. Oh, no; for instance, South Dakota has loaned under the farm loan act \$30,000,000 in three years. Now, that is not near adequate.

Senator NORRIS. What rate of interest do they charge the farmer?

Gov. McKELVIE. They started, I think, charging 5 per cent, but they were obliged to increase that.

Senator NORRIS. Was anything developed at this conference with regard to taxation on these loans?

Gov. McKELVIE. No, sir.

Senator NORRIS. Have you any ideas of your own about that, Governor?

Gov. McKELVIE. I have not; or they are so embryonic that I should not want to present them here.

I am calling into conference within ten days the representatives of all of the farmers' State-wide organizations to discuss with them the program for the forthcoming legislature.

Senator NORRIS. Now, governor, I want to ask another question about this conference. Of course, in a general way I am quite familiar with cooperation in Nebraska, but they never have progressed far enough so that any of their products like wheat and corn could be used in a combined way for the purpose of obtaining credit.

Gov. McKELVIE. No; they have not, but that is just the point now—

Senator NORRIS. Now, in order to bring about such a condition—in the first place there is not any doubt if the farmers' union, for instance in Nebraska, were able to in some way combine their credit on the wheat crop—take that as an illustration, they would command

loans at a very low rate of interest, I should think; but to do anything of that kind will make it necessary that the State or Nation, or both of them, probably, should build warehouses to store this crop.

Gov. McKELVIE. I do not think that is necessary at all for either the State or the Nation to build warehouses. The farmer is capable of doing it himself, and he is going to do it.

Senator NORRIS. There must be storage somewhere. If they do not have central warehouses, then there must be some plan devised by which the farmer himself may store his product on the farm.

Gov. McKELVIE. Yes, sir.

Senator NORRIS. That will have to be done to enable them to get the benefit of the combined crop so as to make a loan on it possible at a low rate of interest.

Gov. McKELVIE. That is being worked out in Nebraska, Senator Norris, in this, that the Farmers' Union has already incorporated and is raising the money to build large terminal elevators, and right along that line of cooperation they expect to proceed to store a very large amount of this grain and to be able to borrow money upon it while they are holding it during the distribution period. It is exactly along the line that the California fruit growers worked out their problems.

Senator NORRIS. Well, they will have to have large storage capacity to carry out that kind of a program.

Gov. McKELVIE. They have that, and they have in addition their local elevators, you understand.

Senator NORRIS. Have they gone far enough so as to know about the amount of money that it is going to cost to have this storage capacity?

Gov. McKELVIE. I think they have incorporated for \$2,000,000, which they are going to build, but they have in addition to that all of their numerous smaller elevators that could be utilized in the same way.

Senator NORRIS. Now, those smaller elevators are run by the local cooperative societies. They do not belong to the State organization.

Gov. McKELVIE. Oh, yes; that law was placed on the statute books, that cooperative law, which enables the local cooperative organizations to have membership in the large cooperative organization.

Senator NORRIS. So that they could transfer their interest and title in the local property to the State organization?

Gov. McKELVIE. Exactly.

Senator NORRIS. Of course, if they did that they could use those elevators for storage purposes.

Gov. McKELVIE. That is just exactly the provision that was made, and I think it is going to ultimately bring about relief, but that will not take care of the present moment.

Senator NORRIS. I realize that. The question I was asking you can not and does not pertain to the difficulty which we have right before us.

Gov. McKELVIE. But I would like to add there, if I may, Mr. Chairman, that I think that encouragement must be given to the cooperative movement by the Federal Government so as to enable

it to become a national institution instead of a local institution within the borders of a State.

Senator HARRISON. Why can not they do that under the organization of export companies under the Edge bill?

Gov. McKELVIE. I can not answer that, sir.

Senator HARRISON. Was there any discussion in the governors' conference touching upon the operation of the Edge Act?

Gov. McKELVIE. There was not.

Senator CAPPER. Governor, this plan that is now being considered by the States; will it include provisions by which the State will advance money on personal credit or on warehouse receipts?

Gov. McKELVIE. Oh, no; only on land. But we feel that when we give relief in that direction then that will immediately reflect to the shorter time loans and relieve many others.

Senator HARRISON. Do the State banks of Nebraska discount paper secured by agricultural products?

Gov. McKELVIE. Well, I can not tell to what extent they do.

Senator HARRISON. Under the Federal reserve law, the Federal reserve banks can do it. I was wondering whether the State banks can too.

Senator NORRIS. I expect that they can do it. Of course, they have got to be guided to a great extent by the lead taken by the Federal Reserve Board. They follow it, although they may not belong to the system.

Gov. McKELVIE. Exactly.

Senator HARRISON. Was there any discussion among the governors that they might recommend to the State banks a liberal policy toward rediscounting paper?

Gov. McKELVIE. The local banks are very liberal in their attitude toward the farmer.

Senator NORRIS. I do not think that there would be any doubt about that if the Federal Reserve would loosen up. Of course, in the State of Kansas, the banks, if they rediscount paper, they have to have it rediscounted at other banks, and it will get to the Federal reserve banks very often when they do.

Gov. McKELVIE. The local banks are simply driven to it. Now, the Federal reserve bank has got to take the lead.

Senator HARRISON. I notice the statement that a good many of the State banks as well as a good many of the national banks do not do so much rediscounting, but that their tendency is to be rather conservative now, rather more so than may be necessary.

Gov. McKELVIE. They have not accumulated any very large reserves, I think, very much beyond the amount required by law. They are simply driven to it. It is a situation that they themselves can not help.

Senator HARRISON. I would like to say on that point that the State bank when it rediscounts paper has to go to a larger bank and that a State bank, of course, is not likely to rediscount this paper. Now, when you go to a larger bank, the chances are ten to one that that bank where they do have to rediscount, if they do rediscount at all, is a member of the Federal reserve system, and they are subject, of course, to the rules laid down by the Federal Reserve Board, so that, indirectly, the same rule will come down and apply to the

State bank that is not a member of the system. I think that all of the banks ought to come into the Federal reserve system, and I think most of them would come in—I believe they would come in—if it were not for this outlandish exchange provision which they have got in the Federal reserve system.

Gov. McKELVIE. Yes, sir. The fact, however, remains that the attitude of the Federal reserve system is a deterrent factor with the bank whether it is a member or not.

Senator NORRIS. Yes, I think so.

Representative HEFLIN. I am in hearty sympathy with a matter that will come to the rescue of the farmer and sees that he does not have to sustain all of the loss. Just think, while we are talking along that line, the cotton crop this year is going to be around 10,000,000 bales.

Last year the farmer got about 40 cents a pound, and he made this crop on a 40-cent basis; everything entering into the cost of production was on that basis.

Now, if prices had fallen from 40 cents to 30 cents the farmers would have contributed to this situation \$500,000,000 on this 10,000,000 bale crop. But the price dropped from 40 cents to 30 cents and from 30 cents to 20 cents, so they would contribute \$1,000,000,000, and it is now down to 15 cents per pound, so that if he should have to sell his crop to-day at the prices obtaining he would sustain a loss on the one crop of 10,000,000 bales of cotton of \$1,250,000,000.

Now, if he is enabled to hold his cotton for two or three or four months, I have no doubt but that the price would go back up to at least 30 cents. The farmers of the South would still lose \$500,000,000. Now, I think that the Government ought to do something that will help him to hold his cotton until he can get a fair price and a living profit.

Gov. McKELVIE. I agree with you, exactly.

Representative HEFLIN. I am in favor of doing that same thing for the grain growers of the West. I do not think that the farmers of the West and the South ought to sustain that loss and I think, and in fact I know, that we have the votes here now from the South and from the West to grant this relief to the farmers if we can unite, and I am in favor of uniting. I think that we can grant credit to them and we should do something. I think we should do something.

Senator NORRIS. Of course, it would be useless to grant credit unless we had some reason to believe that with the credit extended they would be enabled to sell at better prices.

Representative HEFLIN. We had a witness here before us, Mr. Brauer, a representative of Germany, who says that he has in his hands orders for \$1,000,000,000 worth of produce, and, as I understand, most of it is for farm produce—for corn, cotton, and wheat. Now, I think if the grain grower was enabled to hold his stuff off of the market and not compelled to sell that within 90 days' time that the situation would be relieved. I think we can do something to bring about the condition that will relieve the situation so that the farmer could come in and could supply the grain. And Germany wants 2,000,000 bales of cotton now.

The cotton crop of the United States is 5,000,000 bales short of what the world demands of us, and I do not think that the farmer of the United States should be compelled to dump his stuff on the market and let the speculator get it and the farmer have to set back and see cotton go back up within 90 days to \$100 a bale. I think that that is an outrage. With the power we have got we should come to the rescue of the grain grower of the West and the cotton grower of the South, and we ought to do it regardless of how Gov. Harding or Secretary Houston may feel about the matter. I am in favor of action, immediate action.

Gov. McKELVIE. There is a further effect, not only the immediate loss to the farmer, but the further effect upon the morale of the farmer. That, really, after all, is the most important, it seems to me.

Senator NORRIS. Governor, we are very much obliged to you.

Gov. McKELVIE. I thank you very much for the opportunity of appearing before the committee.

Senator HARRISON. Congressman Sumners wants to make a statement, I think.

STATEMENT BY HON. HATTON W. SUMNERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS.

Representative SUMNERS of Texas. Mr. Chairman, I do want to make a statement to the committee, if it has reached that point where it has no other witnesses to hear.

Senator NORRIS. All right, Mr. Sumners, you may proceed right now.

Representative SUMNERS of Texas. Mr. Chairman, I have attended all of the meetings of this committee, and through the courtesy of the Chair and of the committee have been permitted to participate in the interrogation of the witnesses. You have received full information as to the agricultural situation, and I shall therefore not undertake any contribution to that information. I would not avail myself of the courtesy of the invitation to address the committee but for the fact that during the process of this hearing it has been stated several times, in substance, that in the present emergency no provision should be made for the relief of agriculture which is not also made available for industry and business generally, the reason given being that to make special provision for agriculture would be class legislation. In the first place, I shall assume the responsibility of undertaking to show that anything which could be done to relieve the present agricultural distress would not be class legislation, and, further, that the difficulties involved in the agricultural situation are so great that we can not hope to succeed if we address ourselves to the undertaking with that sort of a conception as to our task. What can be done under the present circumstances will depend largely upon the mental attitude with which the task is approached. The determination of that attitude, therefore, is not only first in sequence but it is first in importance.

With the permission of the committee, I shall therefore address myself to that point.

Of course, all industries are interrelated and interdependent. No economic disadvantage can long operate against any one industry

without a sympathetic reaction upon all other industries. The effect of that reaction is proportionate, of course, to the relative importance of the industry directly affected and the extent of the injury which that industry has suffered. The importance of agriculture to all other industries is too well known to need comment, even if it is rather vaguely known. The extent of the economic injury which agriculture has suffered, suffered to the extent of paralysis, is also known. The sympathetic effect of that injury is felt in the most remote part of our industrial body and the paralysis which first became manifest in agriculture is moving, not creeping, but moving with rapidity over the entire industrial and business organism of the country.

Not only does agriculture sustain toward all other business the relationship of one of the interrelated businesses which make up our national business structure, but it is to all business in many important sections of the United States, in a primary sense, the basic business. In a secondary sense, at least, it is a basic business for all sections. When one has under contemplation the doing of something for a basic business, it is as absurd to say of that contemplation that if executed it would be an act of favoritism and of local benefit, as it would be to say that when the farmer digs about the root of a plant and makes fertile and helpful the condition there, that it is an act of favoritism to the root, and an act of partiality against the stalk, the leaves, and the fruit of the plant, which draw their power to live, to grow and reach fruition, through the vitality which that cultivation sends up through the root to build their tissues and make possible their prosperity.

Under the general strain upon our business structure incident especially to European conditions, it was as inevitable that agriculture would be the point of breakage in the event of a break as it is inevitable that in a period of great flood pressure if the levee breaks the breach will be at its weakest point. It is well to remind ourselves, to make a mental note in passing, that the breakage also shows where the weakest point is. When the levee has broken at a given point, and the crevasse is eating its way into the stronger structure, and the flood is sweeping over the back country behind the entire levee, it is no act of favoritism to those immediately behind the crevasse to concentrate all available material and energy upon the point where the break has occurred. The self-interest of everybody, the selfish interest of everybody, demands that it be done. This talk about not wanting to do certain things for the farmers in this emergency because it would be class legislation is as absurd as would be the hesitation to turn the common water of a community on a house afire which threatens a general conflagration.

I know that agriculture is not the only business in distress, but it is the distress of that business more than any other, more than all others which is reflecting itself in injury upon the general business of the country. In that fact is found the common interest, upon that fact rests the common necessity, and out of that fact grows the common obligation, not to agriculture, but to the whole people of the Nation whose business is imperiled, to concentrate the resources of private and public energy upon the removal, if possible, certainly the removal as far as possible, of that menace. There is a difference between the right and the duty to use the public resources to deal with a public

danger and a public injury like this, and the right and the duty to use them to deal with that which is local and isolated in so far as the danger of its spread is concerned.

I do not want to be misunderstood, Mr. Chairman. I would gladly go to the relief of any legitimate industry in distress. But the point I make is that when we come to deal with this great basic business, the root in a large measure of our entire industrial plant, that business the prosperity of which reflects itself in every business and every home of the Nation, the adversity of which throws its shadows across every activity, we are not dealing with a class; we are not dealing with a part of our industrial plant merely; we are dealing at the root of the plant and for the plant—every fiber, every leaf, and every grain of it.

The difficulties are appalling. I confess, Mr. Chairman, that I do not know whether we can overcome them or not, but I do know that we can not overcome them unless as a people we approach this task with a conscious knowledge of the public and general interest involved and the general duty imposed. The instincts of self-preservation, aroused by a knowledge of the situation, should compel the marshaling of the resources of money and of business and legislative genius of the Nation.

It would be presumptuous for me to undertake a complete enumeration of what can be done. Out of the common council of an aroused general interest constructive suggestions, I dare say, may come which have not at this time found expression. I do make these specific suggestions: First. In so far as the general Government is concerned, every possible aid and encouragement should be given to the various agencies which have been or may be formed to facilitate export commerce.

Second. Either the War Finance Corporation should be put into operation with legislative direction to concentrate upon the development of the facilities for agricultural exportation, or a new agency similar to that should be created with the direct and specific commission to embark upon that undertaking.

Under our present circumstances it would be a fatal mistake, in my judgment, to put this agricultural necessity into direct competition, for the limited capital of such an organization as the War Finance Corporation, with the more easily handled propositions which many completely organized businesses would tender for a share of this capital.

Third. A most earnest effort should be made to procure the consent of the interested nations, to make their claim for indemnity against Germany and Austria subordinate to an indebtedness created by those nations for the purchase of raw materials. I speak especially of agricultural products required to get into operation the activities which must be depended upon to earn the indemnity which the interested nations hope to collect and to preserve the physical vigor of the people whose efforts will be required to operate those activities.

Now, in addition to that—

Senator NORRIS. Now, Congressman, before you leave that point, it seems to me that one other thing is necessary. And in your remarks, while you have not mentioned the countries, your remarks have been general, but you have in mind Germany and the other countries that were with Germany in the war.

Representative SUMNERS of Texas. Yes, sir.

Senator NORRIS. Under the treaty of Versailles, there was a reparation commission appointed and are acting now and they are given the power to fix the indemnity which Germany must pay to the Allies. They have not fixed it yet. Now, can we hope for much reparation until they have fixed that amount? In other words, won't it preclude Germany from even doing her best to recover herself as long as she knows that this amount is not fixed and if she does go ahead without it being fixed and does something to show that she is getting on her feet and is able to pay, she realizes herself that the indemnity by her very efforts may be increased and her burdens made larger, so that to get her to work right, to give her the incentive, she ought to know in advance, and will have to know in advance, before she will do her best, it seems to me she should know in advance just what she ultimately will have to pay. She is not likely to make any serious efforts to put herself on her feet if she knows that that very operation is going to increase the indemnity that she will ultimately have to pay.

It seems to me that when we are speaking of Germany and her Allies that that one point, that we must expect that to be done before we can expect even those countries to do their best.

Representative SUMNERS of Texas. Senator, I agree fully that it would be most highly desirable that the question of indemnity should already have been fixed and should be fixed as quickly as possible.

I understand that a gentleman has stated here that he was a representative of the German people or the German Government; that he now has a bona fide demand for a large amount of the products of the farmers of this country, which would amount to a large sum of money, if credit could be arranged for.

Mr. HEFLIN. One billion dollars worth.

Senator NORRIS. That is what Mr. Brauer, who was a witness here claimed to have in his possession, a contract with Germany. Now, we did not examine the contract, and we did not inquire into it. We only have his word for it. Assuming it to be true, as he stated in his testimony, there are two things necessary; first, that the Allies should consent that Germany should be allowed to go in debt for what we have got to sell her for this billion dollars to be used as a credit over here for the purchase of our supplies to be sent to her, and that the Allies should agree that that debt should take precedence over the indemnity which she owes to the Allies. Now, those are two difficulties which we are not able to solve, of course.

Representative SUMNERS of Texas. That is true. And, in so far as I have been able to discover, Senator, there is not a single direction in which we can start to find a remedy for this situation which has largely grown out of the financial exhaustion of Europe and the continued political and industrial disorders there which does not confront us with what seems to be almost insurmountable difficulties.

Senator NORRIS. I agree with you. It seems that way because they are only looking at their own interest. But, of course, that is for them to determine.

Representative SUMNERS of Texas. But, this is what I have learned in my experience in life, that when we conclude that a thing ought to be done and there is any sort of a chance to do it, we can hardly afford not to undertake it because there is involved in it what seems even the

probability of not succeeding. I have found a lot of times situations that by analysis from the outside seemed impossible when undertaken it is found to be possible; and situations which seemed to be perfectly possible when undertaken, we run up against something that we could not get by.

Now, my position in regard to this matter is that we ought to undertake it. We ought to undertake it for two reasons. We ought to undertake it, because if it could be done, it would help the situation, I think, without any question of a doubt. We ought to undertake it because of the present state of acute distress among the agricultural producers primarily, which is reflecting distress upon the whole country.

You have already had, I think, fully presented, and we fully appreciate the importance of doing everything we can to liberalize the credit that may be available, and to increase the credit that may be made available for the agricultural producers who are holding their commodities, not against orderly sale—you take my own State with regard to the cotton situation, and this is the only statement I am going to make about crop matters—during the first market months of cotton, this year's cotton crop, the surplus holdings of the American mills, the European ports, and afloat for Europe, decreased nearly 800,000 bales. That means that they consumed out of their surplus 800,000 bales of cotton more than they added to their surplus by purchases. I think that that is where one of the mistakes was made, but that certainly does meet any criticism that there was a holding movement for speculative purposes. Of course, that is almost beside the question, as it is a fact that the consumer is still out of the market.

Mr. Hester, who perhaps is the greatest authority on cotton statistics, says that in my State, Texas, we were during that time selling three-fourths of the bales of cotton we ginned.

Now, at some later time, when this emergency has been passed, with the indulgence of your committee, I would like, if possible, and I would appreciate very much, the opportunity of discussing with this committee some things which I believe ought to be done to help to strengthen the industrial structure of the business of agriculture. It can be done and ought to be done; but I realize that at this time you are in session for the purpose of trying to devise ways and means of meeting an emergency that not only imperils the agricultural industry, but threatens the industrial stability of the whole country.

Now, if anybody would like to ask me any questions, I would be glad to do the best I can.

Senator HARRISON. I want to suggest right in that connection. your talk has been very interesting, and shows that you are very much in earnest in regard to this matter, and suggests one thought with regard to Germany and the other Central Powers.

I was over in New York last week and I talked to a gentleman on the New York Cotton Exchange, and he told me that the cotton interests of Great Britain were selling the market short, the Liverpool interests were selling the market short, in order to beat down the price of cotton. Now then, I was told by another gentleman that the only cotton that Germany gets now she gets from England and through England. So, if the speculative interests of Liverpool and

Great Britain are selling our market short, they are taking advantage of a distressing situation over here and they are buying the cotton at a very low price and when they get this cotton they sell it to Germany at a figure which in German money amounts to nearly \$2 per pound. Now then, they are doing that and the farmer in the United States who produces the cotton is receiving a price that is 15 cents a pound under the cost of production.

Representative SUMNERS of Texas. I will tell you what I think we should do. I think we should make England and France and their associates understand that if this condition of distress continues to spread in this country, we will be brought to the necessity of insisting that their past due obligations to this country be paid. I believe—I am not a diplomat I know—but I tell you if we will use our agencies and our powers and approach this matter as we can, with a view that what we propose is in the best interest of the world, it does not impress me as a thing which has in it such difficulties as to make it insurmountable.

Senator HARRISON. You propose to take advantage of a certain part of the treaty in order to do that?

Representative SUMNERS of Texas. To take advantage of everything we have got.

Senator HARRISON. But, that is what you propose to do under the provisions of the treaty?

Representative SUMNERS of Texas. Yes.

Senator HARRISON. What would be the position of the United States in going to the Allies and asking them to give us certain preference rights under a treaty that they have accepted and we have refused to accept?

Representative SUMNERS of Texas. Now, let's stay away from the treaty. What I would do would be to go to them as man to man, face to face, nation to nation, and say, "Now, look here,"—

Senator NORRIS. If I may be permitted—I do not want to get into a discussion with regard to the treaty, but I do not want that challenge to go unconsidered here. If we were parties to the treaty and had already agreed to this thing, we would be in a still worse shape with them than we are now, when we never have agreed to have these things set aside.

(Whereupon, at 12.20 p. m., the committee adjourned.)

REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

MONDAY, DECEMBER 6, 1920.

JOINT SESSION OF THE SENATE AND HOUSE COMMITTEES ON AGRICULTURE, *Washington, D. C.*

The Committee on Agriculture and Forestry, United States Senate, and the Committee on Agriculture, House of Representatives, met at 10.30 o'clock a. m., in the committee room of the Senate Committee, Senator Asle J. Gronna, chairman, presiding.

Present, of the Senate committee in addition to the chairman: Senators Norris, McNary, Capper, Keyes, Smith of Georgia, Smith of South Carolina, and Harrison.

Present, of the House committee: Representatives McLaughlin of Michigan, McLaughlin of Nebraska, Tincher, Riddick, Hutchinson, Voigt.

There were also present a number of other members of both the Senate and the House of Representatives.

The CHAIRMAN. Mr. Meyer, I am informed that you wish to make an additional statement, and after stating to the stenographer your name, business and address, you may proceed in your own way.

STATEMENT OF MR. EUGENE MEYER, JR., FORMER MAN- AGING DIRECTOR OF THE WAR FINANCE CORPORATION, RESIDENCE, NEW YORK CITY—Resumed.

Mr. MEYER. Mr. Chairman, I had the privilege of presenting to this committee on Thursday last, at the request of the committee, my views as to the resumption of the War Finance Corporation, the facts concerning its suspension in May, 1920, and the situation so far as financing foreign exports are concerned; and on Friday last the Secretary of the Treasury appeared and gave his views and explained and defended his policies with respect to the War Finance Corporation, among other subjects. I was present during his testimony, and also at the hearing given to Governor Harding of the Federal Reserve Board, and have a few observations on the testimony of the Secretary of the Treasury which I beg to submit to the committee.

The CHAIRMAN. The committee will be glad to hear you.

Mr. MEYER. I thank you, Mr. Chairman and gentlemen of the committee.

The Secretary's testimony, to a great extent, was a repetition of previous statements in explanation and defense of his policies, as expressed first in a letter dated September 29, 1920, and published in full in the Commercial and Financial Chronicle of New York on

October 9, and again in a lengthy address to the American Bankers' Association at Washington on October 20, 1920. The only addition to his previous statements given here to your committee was his reference to the general advice on curtailing crops that he gave to the farmers of the country in the spring of 1919, when he was Secretary of Agriculture. This advice, he intimates, would have been very much to the benefit of the farmers had they followed it; but it appears they did not. One is apt to infer that Secretary of the Treasury Houston contemplates the plight of the producers of the country with somewhat greater equanimity on account of their failure to follow the admonitions of Secretary of Agriculture Houston. The Secretary's testimony before this committee constitutes a confession of complete impotence in the present great crisis.

In support of his policy of inaction he continues to make statements which, were one inclined to characterize them in an unfriendly way, might be called misleading, but in view of the high office he holds, I prefer to describe them as inexact. I refer specifically to:

First. His statement, continuously repeated during the past six months, that the War Finance Corporation was a war organization created for a war emergency. This, in spite of the fact that the powers to make advances to finance American exports were granted to the corporation by the Congress as a reconstruction amendment on March 3, 1919, four months after the armistice. These powers were to continue, according to the law, "until the expiration of one year after the termination of the war between the United States and the German Government, as fixed by proclamation of the President." This much to be desired event has not yet taken place.

Second. His repeated efforts to stigmatize the movement for the resumption of the War Finance Corporation as an attempt to restore inflated prices, when he must be aware, by this time, that the real question which is agitating the producers of the country is the problem of the orderly marketing of our products.

Witnesses before this committee have called attention to the fact that there were a great many American products that have no prices at all; that there are no markets for them. Therefore to the extent that it applies to those commodities it must be a question of marketing, essentially.

Third. The use of misleading statistics, such as the statement that the exports of cotton for the year before the war were between \$600,000,000 and \$700,000,000 and for the year 1919 amounted to \$1,137,000,000, the point here being that the exports, in bales, for the year 1913 were about 33 per cent in excess of the exports for the year 1919.

This is a part of the confusion in that export situation arising from exports expressed in terms of dollars and exports expressed in terms of units of commodities: that is to say, bushels of wheat, pounds of copper, and bales of cotton, or whatever it may be.

Fourth. The statement that the war powers of the corporation expired with the armistice. This, in spite of the fact that when the railroad appropriation failed in March, 1919, the War Finance Corporation loaned to the railroads over \$100,000,000 under its war powers during April, May, and June, 1919, more than six months after the armistice, and that it has practically the same war powers as those

under which the President appointed the Fuel Administrator by authority of the Lever Act in November, 1919.

Fifth. His statement that 50 per cent of the export finance loans which the Corporation actually made were made for the export of manufactured goods, and only 50 per cent for the export of agricultural products, whereas at the time the War Finance Corporation—activity—was suspended, its tentative applications from responsible parties involved the export of agricultural products to the extent of 300 per cent of the loans previously made on agricultural products.

I explained to the committee, Mr. Chairman, on Thursday last, how it took a little longer time to get the machinery working to export agricultural products, because there is no export organization for agricultural products similar to those large organizations already in existence for handling exports of manufactured products. That is to say, there were not then, although they were coming into existence just at the time when the Secretary of the Treasury requested that the activities of the War Finance Corporation should be suspended.

Sixth. His statement that in time of peace the Treasury should not be in the banking business, emphasizing always the banking end of it. This, in spite of the fact that the purpose of the amendment, in accordance with the identical words of the law, is "to promote commerce with foreign nations through the extension of credits;" banking being purely incidental.

Seventh. The statement that the Government could not compete with private bankers. This, in spite of the fact that an overwhelming proportion of the bankers of the country desire the aid and cooperation of the War Finance Corporation in the present crisis.

I think I can say that without fear of contradiction, because I came to the American Bankers convention, held here in Washington October 20, 1920, where a nation-wide group of bankers was assembled and there was hardly a man but what was in favor of it. And I have had a trip through the country since then with Senator Calder's Committee on Reconstruction, going as far west as Denver and as far south as New Orleans, during which trip I had an opportunity to question a very large number of bankers who appeared before the committee, and also interviewed them privately at dinners and at other opportunities, and the most of them, I might say practically without exception, were in favor of it. One banker in Chicago went so far as to say that they were passing through the most excruciatingly painful period they had experienced in 25 years, and that resumption of activity by the War Finance Corporation was the one hope he could see on the financial horizon that would be helpful to the situation. But the bankers of this country, as you may very well understand, are reluctant to express themselves publicly on a policy in opposition to the Secretary of the Treasury, who is also chairman of the Federal Reserve Board.

Eighth. The holding out of great hope in connection with one export financing corporation now being formed under the Edge law, with \$6,000,000 paid-in capital, and another whose formation is to be discussed on December 10 in Chicago. This, in spite of the fact that the leaders in both of these institutions are strongly desirous of the cooperation of the War Finance Corporation, and in the case of the Southern Cotton Export Corporation, the head has expressed himself as doubtful if it would be able to do very much

at an early date to relieve the situation without the cooperation of the War Finance Corporation.

Ninth. The statement that the progress in connection with the formation of export financing corporations has probably been retarded by talk of Treasury help. This, in spite of the fact that a leading banker of New Orleans, interested in the new Cotton Export Corporation, testifying before Senator Calder's committee, in response to questions by me, stated that the formation of the Edge law export corporation had been delayed by the cessation of the activity of the War Finance Corporation, and in spite of the fact that organization of several Edge law corporations was abandoned after the suspension of the War Finance Corporation's activities.

Tenth. The statement that the War Finance Corporation would have to accept all sorts of loans, whether or not material to the public interest and the needs of the present situation. This, in spite of the fact that the War Finance Corporation asserted and practiced the right to exercise its own judgment with respect to any and all loans, considering them from the point of view of public policy in a broad way. For example, the Corporation refused to finance exports to South America and to China last spring on the ground that while we were shipping gold to these countries it would not be in accordance with public policy to give credits for exports to them.

Eleventh. The statement that the War Finance Corporation had no funds except what it would borrow. This, in spite of the fact that the Corporation has \$375,000,000 on deposit with the Secretary of the Treasury. Any part or all of that is at the command in accordance with a law passed by the Congress, of the board of directors of that Corporation, by resolution properly signed by the officers of the company. I mention that not because I think that money should be used, but because I think it is an illustration of the inaccurate statements of the Secretary of the Treasury. I have always recommended that the financing needs of the Corporation, in case of resumption, should be by raising funds through the issue of its own bonds, as we did in April, 1919, to the extent of \$200,000,000, those bonds being at the rate of 5 per cent, at one year, to raise money when we thought we might need it in financing the railroads after the appropriation failed.

Twelfth. The statement that the Treasury should not be asked to take security which business would not take shows, as a matter of fact, that the Secretary does not understand the law, nor does he understand the work of the War Finance Corporation. He suggested before your committee that the War Finance Corporation should not be asked to take loans that business men did not take; this, in spite of the fact that the War Finance Corporation could make loans only to American business men that had already taken such security in connection with exports.

Thirteenth. Finally, his statement about the difficulties of doing business with the Central Empires while a state of war existed I stated to the committee in your absence, Mr. Chairman, that the board of directors had the right to finance certain transactions with reference to the export of goods to the Central Empires, or to Germany, through American bankers entirely responsible, provided the policy of the Treasury and the State Department approved of such a course. That was not settled at the time of the suspension of activities.

The CHAIRMAN. Would it be possible to do it under the Edge law?

Mr. MEYER. No banker has dared to ever raise money for the financing of business with Germany. I do not see how any banker could do it with an unexpressed attitude on the part of the United States Government.

Senator SMITH of South Carolina. What, in your judgment, would be the possible attitude of the Government now, while we are technically at war with those countries, in order to improve the situation you are discussing.

Mr. MEYER. If this Government is permitting American business men to do business with Germany and it is legal to do it, I do not see why the War Finance Corporation, which does business exclusively with American citizens, should not finance their business, if it is a legal business—and if it is not a legal business, as I stated on Thursday, let it be stopped altogether. Let us have a definite attitude on this question on one side or the other, on the part of the Government. A policy of permitting private business men to carry on business with Germany, on the one hand, and refusing to do it on the part of the Government, on the other hand, does not seem to me to be proper.

The CHAIRMAN. If I do not misunderstand your position it is this, that if the agents of the Government would give their sanction to do something along this line then something could be done under the provisions of the Edge law.

Mr. MEYER. Well, the Edge law banks would have to raise money. If they merely used their capital it would be a limited assistance, but if in addition to their capital they had the help of the War Finance Corporation I think the whole situation of the restoration of our trade could be very materially advanced.

Senator SMITH of Georgia. Under their authority to issue ten for one on their capital stock, bonds, or notes they could help the situation?

Mr. MEYER. Yes; the matter would then involve passing upon their securities.

Senator SMITH of Georgia. The War Finance Corporation would be a tremendous aid to them in financing their notes.

Mr. MEYER. Yes; the War Finance Corporation could agree to finance it themselves, or they could agree to finance it in case the public offering did not go—and that is the way, when we were active, that we were operating for the most part. We even said, "We will stand back of the proposition to try and get the money from the public," and it helped them to get it. In many cases they got it all from the public and none from the War Finance Corporation.

Senator SMITH of South Carolina. Mr. Houston said, according to your brief, that the Government ought not to come in competition with the War Finance Corporation.

Mr. MEYER. The War Finance Corporation, as I understand its function, is to cooperate in passing upon securities offered by foreign governments and in lending advice and assistance in these different matters.

Senator SMITH of South Carolina. That is what I understood the War Finance Corporation was created for.

Mr. MEYER. You are quite accurate in your point of view. The Secretary's statement is inaccurate; it never did compete with anyone.

The CHAIRMAN. I want to be pardoned for interrupting you, Mr. Meyer, but I think it is an important matter and therefore I will take the liberty of asking—

Mr. MEYER (interposing). Ask me anything you wish, Mr. Chairman; I am here to answer.

The CHAIRMAN. I want your opinion because we value your opinion very highly, Mr. Meyer.

Mr. MEYER. I thank you, Senator.

The CHAIRMAN. As I understand, your opinion is that if we were at peace with Germany, that if we had declared formal peace with Germany, it would be possible, at least to a limited extent, to improve conditions through the machinery which might be set in operation under existing laws. Is that your position?

Mr. MEYER. It is. Nothing could be more helpful to a restoration of economic relations than formal peace. But I was trying to find a way to restore our economic relation through the War Finance Corporation during the reconstruction period, or the armistice period I would say. I understood that the Congress had that in mind, that this corporation should be created to do what it could to ease the transition period and improve conditions.

Senator SMITH of Georgia. But even if there were a formal declaration of peace yet under this legislation it was provided that you should continue for a certain period.

Mr. MEYER. That is exactly right.

Senator SMITH of Georgia. Even if we had a complete termination of the technical war with Germany you consider that this institution is essential, or at least very important I will say, to continue for at least 12 months longer.

Mr. MEYER. I think it could be extremely useful as conditions developed from time to time during the transition period. This transition has been deferred by the failure to declare a state of peace.

Senator SMITH of Georgia. I mean that if a formal declaration of peace took place you still regard the continuance of the War Finance Corporation as important.

Mr. MEYER. Yes, sir. You will remember the words I read on the first point, "until the expiration of one year after the termination of the war between the United States and the German Government, as fixed by proclamation of the President." So when Congress passed the law containing those words you thought it would be necessary.

Senator SMITH of Georgia. Yes; that is the point.

Mr. MEYER. I better reread article 13 as I have it here in my statement.

"13. Finally, his statement about the difficulties of doing business with the Central Empires while a state of war existed." On this point, he substantially repeated a statement made in a letter dated September 29, 1920, referred to above, in which a lengthy explanation of his policy concludes with the following sentence: "Matters are further complicated for this Nation by reason of the fact that it has not yet concluded peace with its enemies, and has not yet joined with the other great nations of the world in a cooperative effort to hasten the return of sound conditions and to allay the fears of the world as to the recurrence of other wars." Now, gentlemen, in criticising that expression I would like to say that I have no inten-

tion of entering upon controversial diplomatic matters in the Senate. But I do feel that this, perhaps, is as important a point as any, for all the rest of his statement is negative in import, but in this explanation of the economic difficulties, published during the campaign, there is a directly implied method of remedy. One can not avoid the conclusion that the Secretary is pointing out to the farmers, as well as to the merchants and bankers of America, not only that this analysis of the situation indicates its solution, but that perhaps it is the only solution. One is loath to believe that the weapon of economic pressure, which is a feature of the League of Nations of the Versailles treaty (in fact, its ultimate authority has rested on the economic weapon), should be applied by an officer of the Government against the people of his own country to force them to accept his views on international relations, but in view of these words, how is such a conclusion to be avoided?

I can not believe that the staunchest adherent of the League of Nations will sanction this method of advancing the progress.

For the benefit of the committee may I be permitted to review briefly a few essential points in connection with the suspension of the War Finance Corporation and its possible resumption?

At the time of the suspension of the business of the corporation, opposition was expressed by a substantial part of the board of directors, and by prominent business men and prominent bankers, interested in financing exports, from various sections of the country without regard to geography or politics. Some of the leading members of the Democratic Party opposed the Secretary's action, as well as members of the Republican Party. His decision was taken on his own interpretation of the intent of the Congress at a time when the Congress was in session and the matter could have been submitted to the Ways and Means Committee of the House of Representatives and the Senate Committee on Finance for their views. This I asked him to do, but in vain. I went so far as to draw a bill to get a positive statement from the Congress as to the War Finance Corporation, and asked that it be submitted in order to test what the intent of the Congress was. This request was refused. I felt that if the Congress wished to terminate it then the Congress should have the right itself to do so, and I thought the introduction of such a bill would raise the issue and make it a matter of record as to what the intent of the Congress was.

Senator SMITH of Georgia. Was that suggestion on your part based upon the opinion that the War Finance Corporation ought to be terminated?

Mr. MEYER. No, sir; it was based upon the opinion that it ought not to be terminated, but I thought if there was any question about it, and I felt that the Secretary of the Treasury having that question in his mind, that he was entitled to consideration, and I thought that the Congress was also entitled to the consideration of having a chance to express itself thereon, and that the proper way to get the opinion of the Congress was by submitting the matter; and that the most definite way to get the intent of the Congress would be to submit the question by a positive act of legislation terminating the War Finance Corporation. I could not suggest that we should come up here on the hill and ask that it be continued. If the Secretary of the Treasury wanted to continue it then there was no legal objection to so

doing, but if he wanted to stop it, and we thought it ought not to be stopped, then I thought this the best way to bring it up. I called in at the time and had prepared by the best attorney I could get, a member of our board, a bill in a form so that the subject could be brought before the Congress, and the Congress could give a definite expression of its intention as to the subject.

Senator SMITH of Georgia. You have continuously believed that the War Finance Corporation should not be suspended in its operations?

Mr. MEYER. I so believed at that time and have believed it at all times. Senator Smith, the collapse in the commodity markets of this country was no surprise to me; it is no surprise to anybody who was acquainted with conditions. The market for finished products collapsed early in the spring, and yarns became almost unsalable a little later on, and it was thought it would be only a short time thereafter until cotton would be unsalable, as I stated, and I called the attention of the Secretary of the Treasury and made speeches to the effect that unless something was done the situation would be bad this fall.

Senator SMITH of Georgia. My reason for asking you was that in a private conversation I had with a gentleman it was claimed to me that you at first favored the suspension of the activities of the War Finance Corporation.

Mr. MEYER. No; I never favored it.

Senator SMITH of Georgia. I did not accept the statement as accurate. I was citing your position on the subject early last week, before you came down here, and the reply made to me was, "Well, he has changed his position."

Mr. MEYER. I never changed it. An assistant to the Secretary of the Treasury came to us and asked us to pass a resolution saying the board of directors had decided to suspend activities of the War Finance Corporation in aid of foreign trade. I said that could not be done because I for one would not vote for it, and that others would not vote for it, and that if its activities were to be suspended that action must be taken by the Secretary of the Treasury on his request and on his responsibility. And in accordance with his request and on his responsibility I wrote an announcement, the first line of which was to this effect, "At the request of the Secretary of the Treasury the activities of the War Finance Corporation are suspended." You will find that there is nothing in the statement which indicates that the board of directors decided to suspend operations. As a matter of fact, I pointed out the situation as to low-grade cotton in the south, and asked the Secretary if he wanted to do nothing else to at least let us help in financing the things that could not otherwise be moved, confining ourselves to simply such cases and awaiting the time when perhaps other assistance might be needed. Now, the word "suspension" was used in that announcement, and if suspension means anything it means that there can be a resumption in case of need. Why was the word "suspension" used? Why shouldn't it have been called terminated? I was not responsible for the announcement. The Secretary, you will see if you read the announcement, assumed full responsibility. Of course it would have been absolutely impossible for us to continue without the cooperation of the Secretary, because he, by the wording of the law, controls the finances.

Senator HARRISON. How many members were on the board?

Mr. MEYER. At that time five. Mr. Cutchin, of New York, who had represented the Treasury Department in Europe or some other financial department, and was a colonel in the Army, but who had accepted in the spring the position of director at a very great sacrifice and because he believed so much in the necessity of maintaining economic conditions. He had an unexpired term of a previously resigned director, and his term expired the 18th of May, and as the Secretary of the Treasury by that time had made it clear he did not want the War Finance Corporation to continue operations, Mr. Cutchin did not allow his name to come up, and I afterwards resigned. The Secretary of the Treasury is ex-officio chairman, Mr. McLean is managing director, and Mr. Cooksey the other director. I claimed then that the proper thing was to determine the desire of the Congress by presenting the matter to the Congress for its decision. On the question of policy, apart from the intent of the Congress, I suggested calling a conference of representative business men and bankers, including the economic representatives of the United States Government at the Peace Conference to consider the question in an advisory way, but this suggestion was rejected.

When the Congress passed the reconstruction amendment—I would like to call this the reconstruction amendment, because that is what you wanted it to be, but the Secretary of the Treasury calls it the war powers so much that I would like to have it called by this other name, as that will clarify the thing a great deal—to the War Finance Corporation act, it did so, I believe, with a view to the possibilities of unbalanced conditions due to the rapid changes in our domestic and foreign markets; to the difference in the war time needs and peace time needs, and also to the post-war breakdown in the purchasing power of many of those countries previously accustomed to purchase from the people. It is impossible to conceive that the Congress acted with an idea attached to a date so much as with an idea attached to a condition, a condition that still prevails, and is now perhaps more acute than at any time since the armistice. The Congress did so, perhaps, with some regard to the idea which I expressed in my testimony, as follows:

It (the amendment to the War Finance Corporation Act in connection with foreign trade) is not designated to displace private enterprise or to put the Government permanently into general banking business. The amendment is limited as to time and as to purpose. It is intended, primarily, to help our own industry, our own labor, our own finance, and thus our own national well-being. Nevertheless, a prompt restoration of international trade will do much more; it will enable Europe to restore its industry and employment of labor, and thus hasten its political and social peace. Unemployment and hunger are the surest sources of social disorder.

In extending credits at this time to foreign countries to enable our industries and theirs to resume normal activity promptly, I believe we would be making a most important contribution toward international peace and prosperity, and that the results arising would benefit alike the country extending the credits and the countries which received them.

That, gentlemen, was the way I put it before the Senate Finance Committee, and as no other witnesses testified I take it that it is fair to say Congress had that idea too.

At this moment our trade is upset and demoralized as it perhaps has not been in our history. Millions of people in Europe are suffer-

ing from a lack of material things, the inability to sell which is causing distress to millions of people in our own country.

I wish to make it clear that I do not believe the resumption on the part of the War Finance Corporation will cure all the woes of the world, but I do believe that its resumption will be one important step in remedying the congested state in the business of our agricultural production, in our industrial production, in our commercial processes, and in our banking system; for let it be well understood that the policy of price-smashing has, by confession of the Secretary himself, produced no liquidation of loans, and Gov. Harding testified before the committee that our banking system would be helped by a more orderly marketing of our production.

I called attention at the hearing on Friday to the fact that at the time of the suspension of the War Finance Corporation, Edge law corporations were about to be formed on a considerable scale, actually in connection with certain business proposed to the Corporation, and Gov. Harding stated that he doubted it, because there had been so little action taken along these lines previous to the suspension. From an examination of the facts, which I did not happen to have at hand when Gov. Harding was testifying, it appears that the Edge law was passed on December 24, 1919, and the regulations under which Edge Law Corporations could be formed were not published until March 23, 1920. The suspension of the War Finance Corporation allowed the bankers of the country only six weeks. More than two-thirds of the entire time between the passage of the Edge Law and the suspension of the War Finance Corporation's activity was consumed in formulating the regulations under which the Edge Law corporations were to operate, if they were organized.

If the War Finance Corporation resumes at this time, I believe a considerable number of Edge law corporations will be formed and that their value to the present situation would be increased and accelerated by the cooperation of the War Finance Corporation. On this point I quote my testimony before the Senate Committee on Finance again, because it is exactly the cooperation with such institutions that we had in mind, as follows:

This bill is designed to meet this unprecedented condition of the world's international trade, and should stimulate our bankers and our merchants to the greatest courage and the prompter action that is necessary to meet the emergency.

In connection with the discussion of this problem, may I add that at this moment our finance and trade is more than a matter of business—more than a matter of finance—and above all things, it is certainly more than a matter of the outworn platitudes of students of political economy of the laissez-faire school, of which the Secretary appears to be an adherent. Let us not forget that the stakes involve the welfare and happiness of millions of people on both sides of the water—and we are trying to raise \$33,000,000 now to relieve starving babies, and while I do not like to say it, I believe there would be fewer starving babies to-day if the War Finance Corporation had been continued and much less suffering in this country. In the great crises of the war we suspended the normal rules for action under normal conditions in favor of exceptional rules of conduct in affairs made necessary by the prosecution of the war. We all share in the desire to have things return to normal, but I am not of those—nor do I believe that you are, gentlemen of the committee—who think

that by merely acting as though things were normal they will become normal. In order to restore normal conditions in the soundest and promptest way it is chiefly necessary to have a clear vision of the abnormal features of conditions and to keep the mind sufficiently flexible to meet them.

Civilization does not consist in letting nature have her way. On the contrary, all that we value in civilized life has been achieved through the control and intelligent direction of natural laws in accordance with the needs of humanity. The Secretary of the Treasury considers that we should bow our heads to the inevitable. His disposition to bow to the inevitable, in my opinion, involves too ready an acceptance of conditions that can be, if not entirely cured, nevertheless considerably alleviated in the general interest.

If the Congress authorizes the resumption of the War Finance Corporation, it should not stop with that action. It should, if I may suggest, proceed promptly to a consideration of the broad question of the economic condition of the country internally and internationally. But this will take time, and I would respectfully recommend that for the present the resumption of the War Finance Corporation be determined with all possible speed. Not only will the funds available be helpful, but as an expression of attitude on the part of the Congress—as an evidence of its appreciation of the dire necessities of the country—it will be the most comforting, the most helpful, and the most healing event of the year.

Mr. Chairman and gentlemen of the committee, I think I have stated what I have in mind on this subject, and I have tried to state it as I know it and believe it to be.

The CHAIRMAN. Any questions, gentlemen of the committee? [After a pause.] Mr. Meyer, the committee thanks you very much.

Senator SIMMONS is here and the committee will be glad to hear him.

Senator SIMMONS. Mr. Chairman and gentlemen of the committee, at the recent meeting of the governors of the States of the Union in the city of Harrisburg certain resolutions were passed with regard to the questions which are undergoing investigation by this committee. That meeting authorized the Governor of North Carolina, Mr. Bickett, who is here, to present those resolutions to this committee. I would like to have the opportunity given him so to do.

Senator NORRIS. Senator Simmons, may I suggest that we already have those resolutions in the record?

Senator SIMMONS. Probably Gov. Bickett wishes to make some statement in addition.

Senator NORRIS. I know we will all be glad to hear that.

Senator SIMMONS. Perhaps he will wish to present the resolutions in connection with his statement.

Senator SMITH of Georgia. I move that the governor of North Carolina be permitted to present his resolutions and to make his statement.

Senator SIMMONS. The governor was directed to present the resolutions, and I have no doubt he has in mind to make some observations of the result of the discussions which took place in that meeting of the governors.

Senator McNARY. Senator Smith, Senator Norris merely called attention to the fact that those resolutions had actually been printed

in our record, but I am sure he had no idea of preventing any presentation that Gov. Bickett has to make to this committee.

Senator NORRIS. Certainly not.

The CHAIRMAN. The committee will now be glad to hear Gov. Bickett of North Carolina.

STATEMENT BY HON. T. W. BICKETT, GOVERNOR OF THE STATE OF NORTH CAROLINA, RALEIGH.

Gov. BICKETT. Mr. Chairman and gentlemen of the committee, as the most of you know, the governors of the several States hold an annual conference, where there is a very kind and friendly exchange of views on matters in which the States of the Union are interested. We met this year in Harrisburg, on the 1st of December, and of all the subjects discussed there this subject gripped the attention of the governors more than any other. The discussion was opened up by Gov. Harding of Iowa. There was pretty general participation in the discussion by the governors present. Then a committee composed of Gov. Harding of Iowa, Gov. Goodrich of Indiana, and Gov. Holcombe of Connecticut, and myself, was appointed to make a report—rather than a resolution—on the situation. We gave considerable study to the matter, and the report which you say you already have in your record is the result of our deliberations. If the members of the committee have read this report I will not read it now, but having been a member of the general assembly of my State I happen to know that the members of committees do not have an opportunity to read over everything that goes into a record under leave to print. It is very short, and I believe I will read it if there is no objection.

The CHAIRMAN. You may proceed, Gov. Bickett.

Gov. BICKETT. I think the temper of the conference is correctly set forth in the preamble. This report was made, and I might say, in order to be entirely accurate, that it is wholly against the constitution and by-laws of the governors' conference to pass any resolutions, because it is only intended as a very friendly exchange of views. But we receive reports and discuss those reports, and this report was unanimously passed or adopted, but it was not in the shape of a resolution.

REPORT ON AGRICULTURAL SITUATION BY COMMITTEE OF GOVERNORS ASSEMBLED IN ANNUAL CONFERENCE AT HARRISBURG, PA.

Gov. T. W. Bickett said:

As chairman of the committee, I submit the following report:

The financial situation in the whole country is cause for the gravest concern but not for despair. All lines of business are realizing heavy losses, but the swift decline of prices of farm commodities to far below the cost of production threatens a national disaster. The situation demands infinite patience and forbearance and supreme wisdom and courage. Nothing but evil can result from anger or fear.

We believe that the tenseness of the situation can be relieved in several ways:

(1) Let every individual do all he can to help and encourage his neighbor. Let there be a complete mobilization of the financial and spiritual assets of every community. Neither God nor the Government ought to be asked to help those who do not first make every effort possible to help themselves. There ought to be a united effort in every community to keep any good man from being destroyed because he can not immediately meet his obligations. Under existing conditions it would be the acme of inhumanity and of unwisdom to force any debtor into bankruptcy if by the most liberal indulgence he would be ultimately able to pay. Business failures do more than wreck business; they oftentimes destroy man.

Liberal indulgences and renewals should be granted by the manufacturers to the jobbers, by the jobbers to the merchants, by the merchants to the individuals. It is no time for a creditor to seize his debtor by the throat and savagely say, "Pay me that thou owest."

(2) Let the Federal Government create a finance corporation of some sort that will enable the people of other lands to obtain from us the commodities they so greatly need but for which they are not able to make immediate payment. We believe such a corporation to be entirely feasible and that its mere creation would substantially help the situation.

(3) The Federal Reserve Board should be urged and authorized to advise all banks to adopt a liberal policy of renewals. The law authorizing six months credit on agricultural papers should be liberally construed, and renewals for a like period should be freely granted wherever it safely can be done. The real wealth of the country is unimpaired. It would be suicidal policy to destroy this wealth by a peremptory call of loans.

If necessary, the Congress should at once amend the Federal reserve law so as to temporarily supply additional credit and afford more time to debtors in distress.

We believe that the general adoption by individuals and by the Government of the policies herein suggested would not only afford material aid but would at once supplant the gloom and the fear of the present with that confidence that is so vital to wholesome and successful business.

T. W. BICKETT, *Chairman.*

One thing we call attention to is the present policy to call loans. I happen to know that down in my State of North Carolina there is a disposition, and the bankers say it is because of instructions approved by the Federal Reserve Board, to call loans. It seems to me to be a very foolish policy to kick the bung out of the barrel after putting the stopper in the faucet hole. The last time in the world to call on any man when you can indulge him consistent with safety is in such a situation as this.

Senator SMITH of South Carolina. Did your meeting of governors discuss the rates of rediscount of Federal reserve banks?

Gov. BICKETT. No, sir; that did not enter into our discussions at all.

Senator SMITH of Georgia. Did you directly discuss the War Finance Corporation?

Gov. BICKETT. Yes, sir. Of course, naturally all of us thought of the War Finance Corporation.

Senator SMITH of Georgia. As to the financial situation you thought of the War Finance Corporation as a financial institution to grant relief?

Gov. BICKETT. Yes, sir; we need some kind of corporation like that.

Gov. NORRIS. But you put your report in general terms?

Gov. BICKETT. Yes, sir. We put it in general terms in order to leave just as much latitude as possible to you gentlemen.

The CHAIRMAN. You may proceed with your statement, Gov. Bickett.

Gov. BICKETT. Gentlemen of the committee, the situation with us in the South is more than distressing, it is tragic. It would be impossible for me to use words that would overstate the alarming condition that confronts the cotton farmer of the South. There is no market for cotton at all. The fact that cotton is bringing 12 cents a pound to-day is because practically nobody is selling cotton. If cotton were being marketed in normal amounts at the present time it would bring nothing. The seed is not bringing what it cost to pick it and for handling. Somebody has got to hold this cotton. I do not think the Government ought ever to interfere with the law of supply and demand to hold a commodity off the market. But I do think the Government ought to do everything

in its power to help the man who produces this necessary commodity, and of course other necessary commodities, to hold them for the market. It is a question as to who is going to hold this cotton until the market opens up for it. Somebody is going to do it. It is not going at once to clothe the naked peoples of the world. And we think the man who made the cotton ought to be given assistance and enabled to hold the cotton until the market opens up and the world is ready to take the cotton that it needs. We have not made more cotton this season than the world needs. There is a shivering necessity for more cotton than there is. At the conference in New Orleans last year we were told that if the South made less than 15,000,000 bales of cotton this year there would be a world-wide calamity result.

Senator SMITH of South Carolina. And the president of the British Cotton Association reiterates it now.

Gov. BICKETT. Yes, sir. And the world is going to take this cotton just as soon as the international financial tangle can be straightened out and they will be able to buy something for which they are so sorely in need over there. Our farmers, I think, are possibly the most conservative set of people to be found in the United States. Less than 1 per cent of our population down there is foreign born. They do not get excited about things. They are quiet, conservative people; but this is a situation which is driving them to the point of desperation. They do not understand why it is that when they are not getting one-third as much for their product as they got a year ago, yet when they go to buy anything the merchant makes a great myration because he has to make a reduction of, say, 20 per cent. What they have to offer has been reduced 300 per cent. As an illustration, one of the largest farmers down in Edgecombe County, a man Senator Simmons knows very well, a member of our present State Senate and the president of a little local bank, one of the most successful men we have, made 300 bales of cotton last year; and he said he keeps books for his farming operations the same as he does for his banking operations; and he is a scientific farmer, and says it cost him 27 cents a pound to make cotton this year. But in view of the situation which confronts him to-day what does he say, "I am going to cease planting cotton. I am not going to plant a seed next year, but am going to plant my land in peas and corn, and then am going on the New York Stock Exchange and buy 300 bales of cotton."

Suppose this situation were to bring on a crusade throughout the South among the farmers who keep books? Suppose they were to stop planting cotton at all and to say that they will go on the exchange and buy for next fall's delivery from the cotton that is offered? That would create a most distressing situation in this country and in other countries of the world.

Gentlemen of the committee, the farmer feels that his voice has not been heard up here in Washington; that there has not been a sympathetic hearing given by the Treasury Department in regard to this matter—and certainly the Government ought to manifest every disposition that can possibly be manifested consistent with sound business principles to help him out of this great emergency.

Senator CAPPER. Did this conference consider this suggestion: As to whether the Congress or the Government could provide relief by

requiring the Federal Reserve Board to advance additional funds to the farmer, the cotton man, and the wheat grower, and others, on warehouse certificates, temporarily?

Gov. BICKETT. Yes, sir. That is provided for in the report. It says that if necessary that Congress should at once amend the Federal reserve law so as to provide additional credit to be extended temporarily to the farmer.

Senator CAPPER. It was the opinion of the conference that that should be done?

Gov. BICKETT. Yes, sir; that it should provide additional funds and also provide for these extensions, and stop this command that has come down all the way along the line to make everybody settle up right now.

Senator SMITH of South Carolina. At the conference we held before the Federal Reserve Board and the Secretary of the Treasury, the Comptroller of the Currency made the statement, and published it, that there was a sufficient gold reserve for the issuance of two billions of dollars of additional Federal reserves if the board saw fit to do it. Something ought to be done by this Congress to meet that very situation.

Gov. BICKETT. I think so.

The CHAIRMAN. If that is all, Gov. Bickett, the committee is very much obliged to you.

Gov. BICKETT. Gentlemen of the committee, I want to thank you for the opportunity extended to me to present this report and make a few remarks thereon.

Senator McNARY. Mr. Chairman, Representative Sinnott, of my State, is here and desires to make a very brief statement.

The CHAIRMAN. The committee will be very glad to hear Representative Sinnott.

STATEMENT OF HON. NICHOLAS J. SINNOTT, REPRESENTATIVE IN THE CONGRESS OF THE UNITED STATES FROM THE STATE OF OREGON.

Representative SINNOTT. Mr. Chairman and gentlemen of the committee, I represent a large wheat-growing district. Before I left home I had a conference with a man who buys a great deal of wheat, and who grinds in my town some 5,000 barrels of flour a day. He is a very conservative man, a good business man. He told me that he thought one of the troubles relating to the wheat situation was this, that England has retained its central buying agencies, and Great Britain buys as a unit. That enables Great Britain to dominate the price of wheat, particularly in this country, where the sellers are disorganized and have no central governmental agency to combat the central agency of Great Britain. I merely wanted to get that idea before your committee for your consideration.

Senator SMITH of Georgia. Does that mean that all wheat exported to Great Britain now is bought for Government account?

Representative SINNOTT. That is his opinion of the situation.

Senator NORRIS. The statement has been made to me that that combination existed not with England alone, but with all foreign governments, that they had united. When the Secretary of the Treasury was on the stand here, I put that question to him and asked

him if there was anything in it. I do not remember now his answer so far as his exact words were concerned, but it was to the effect that if there was anything in it he did not know it.

Representative SINNOTT. Mr. McCoy, the gentleman I am quoting, is the president of a large warehouse and milling company. He is a large buyer of wheat, and his warehouse almost dominates the wheat situation in that section. He tells me that the Government of Great Britain buys all of the wheat for that country. We have no control of the situation here.

The CHAIRMAN. It is a policy that continues despite the fact that the war between England and Germany has been terminated.

Representative SINNOTT. I so understand.

Senator SMITH of Georgia. It is a policy that weighs heavily on the sellers, for they have no organization.

Representative SINNOTT. Yes.

Representative HULINGS. That is as to exported wheat, but it would not necessarily make the price for wheat in this country, would it?

Senator NORRIS. Mr. Chairman, I hope we will not get into a long discussion here on Mr. Sinnott's suggestion, because in a few minutes we must recess in order to go to the Capitol for the opening of Congress, and I do not believe we ought to go into that detail.

Representative SINNOTT. I merely wanted to get Mr. McCoy's statement into the record.

The CHAIRMAN. The committee is much obliged to you, Mr. Sinnott.

Representative VOIGT. You consume more wheat than you raise in your district, don't you?

Representative HULINGS. Naturally.

Representative VOIGT. I can see your viewpoint.

Senator NORRIS. Mr. Chairman, I think it was the sentiment of the committee that time is really the essence of this matter, and that the committee ought to take some action. We have had no resolution before us, I will say. We have had a general discussion, and it has been exceedingly interesting and striking. The other evening after we adjourned, after talking to one or two of the members of the committee, I prepared a concurrent resolution, and I would like to say before I read it that I have tried to put nothing in here that would require the passage of any law. I think it is generally conceded that the War Finance Corporation, for instance, does not need a new law. The law under which it exists and worked has been suspended. This is just tentative, but I believe we ought to get down to the point where we could discuss some particular thing. I would like to read this concurrent resolution.

The CHAIRMAN. Do so.

Senator NORRIS. This is in the form of a concurrent resolution, and there may be a question whether we ought to have a concurrent resolution, or a joint resolution, but that, like everything else in here, is for the committee to say:

CONCURRENT RESOLUTION Expressing the opinion of Congress as to what action should be taken for the relief of the present depression in agricultural sections of the country.

Whereas there exists in the agricultural sections of the country unprecedented and unparalleled distress on account of the inability of the farmers to dispose of the corn, wheat, cotton, and live stock now in marketable condition at prices that will anywhere near pay the cost of production; and

Whereas the nations of Europe are in dire need of the agricultural products now in possession of the farmers of this country, but are unable to purchase on account of existing financial conditions; and

Whereas under an Act of Congress there was established the War Finance Corporation for the purpose of financing the exportation of American products to European markets; and

Whereas the activities of the War Finance Corporation were suspended in May, 1920, by an order of the Secretary of the Treasury; and

Whereas the banks of the country are unable to extend credit to the farmers in order that the farm products may be held until they can be sold in a fair and reasonable market: Therefore

Be it resolved by the Senate of the United States (the House of Representatives concurring), That it is the opinion of the Congress of the United States that the Secretary of the Treasury should revoke his order suspending the activities of the War Finance Corporation, and that said corporation should be at once rehabilitated with the view of assisting in the financing of agricultural products for sale in European markets.

Resolved, second, That it is the sense of Congress that while orderly deflation is desirable, that too rapid deflation is destructive, and that the Federal reserve bank, assisting through its member banks, should grant very liberal extensions of credit to the farmers of the country, thus enabling them to hold agricultural products until a market can be obtained that will at least return to the farmers of the country, the cost of production.

(Thereupon, after a brief informal discussion of the resolution, at 11.50 o'clock a. m., the committee recessed until 3 o'clock p. m.)

REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

WEDNESDAY, DECEMBER 8, 1920.

JOINT SESSION OF THE
SENATE AND HOUSE COMMITTEES ON AGRICULTURE,
Washington, D. C.

The Committee on Agriculture and Forestry of the United States Senate and the Committee on Agriculture of the House of Representatives reconvened, pursuant to adjournment, at 10.30 a. m., in the room of the Senate Committee on Agriculture and Forestry, Senator Ellison D. Smith, of South Carolina, presiding.

Present: Senators Gronna, France, McNary, Capper, Keyes, Smith of South Carolina (acting chairman), Smith of Georgia, and Kendrick; and Representative Tincher.

Senator SMITH of North Carolina (acting chairman). Senator Swanson, I believe you have certain representatives from your State that wish to be heard in reference to the tobacco situation?

Senator SWANSON. Mr. John C. Blair, a member of the Virginia House of Delegates and also president of the Tobacco Growers Association of Virginia and North Carolina, is present and desires to be heard.

STATEMENT OF MR. JOHN C. BLAIR, DANVILLE, VA., PRESIDENT OF THE COUNTY FARMERS TOBACCO GROWERS' ASSOCIATION OF PITTSYLVANIA COUNTY, VA.

Senator SMITH of South Carolina. Mr. Blair, if you are ready now you may proceed. Please give the reporter your full name and address and your business relations.

Mr. BLAIR. John C. Blair, of Danville, Va., farmer and president of the County Farmers Tobacco Growers' Association of Pittsylvania County.

Mr. Chairman and gentlemen of the committee, I am here to ask for something, but I can not tell you people exactly what we want to ask for. I can tell you our needs. We tobacco growers are badly in need of help. I can not suggest to you what you may do for us, but I can suggest to you our needs and leave you to decide for yourselves what to do.

We are not getting anything near the cost of production for tobacco in the bright belt. We think that one of the prime causes is that a large majority of our tobacco is common, and the market for that tobacco is poor. Dealers tell us that the main market for this common tobacco is with the Central Powers - Austria, Germany, and those powers that we have not made peace with and have no trade relations with. Those dealers also tell us that on account of the foreign exchange and the lack of money on the part of those people they

can not sell this tobacco. They are loaded up with it. They have absolutely got nearly all the tobacco on hand. Those dealers—we call them independent dealers, the men who are not associated with the big companies those—men can not sell our tobacco.

Senator SMITH of Georgia. If credits could be given, if the exporters were in a position to sell on from 9 to 12 months, do you understand from them that the tobacco would move and that it could reach the market; that is, if the exporters were in a position to extend credits and give them good, fair security for the final payment?

Mr. BLAIR. Some of those things I can not answer positively, but I can say positively that if the credits were extended so that those people could buy, our independent dealers, men who are not associated with the big companies, might sell that tobacco; but we absolutely have not any independent buyers on the market now.

We sell our goods at auction. A very fine crop of tobacco, a fine curing of tobacco, when it is graded will have some very common tobacco in it. Although you make a very fine crop of tobacco, the bottom leaves are common. Sixty per cent of the tobacco on our market a warehouseman told me was bringing practically nothing, and yet some of our fine wrappers and fine cutters are going at from 60 to 80 cents a pound.

Senator McNARY. What proportion of your crop has been moved this year?

Mr. BLAIR. Sold out of the farmers' hands?

Senator McNARY. Yes.

Mr. BLAIR. Somewhere near half; that is, in our immediate section. Farther south more has been sold, but in our immediate section, what is called the old belt, they sold somewhere near half. Is not that right, Mr. James?

Representative JAMES. I think that is the bright tobacco.

Mr. BLAIR. That is the bright tobacco. We believe, as the Senator has said, that if this credit were extended it would give us great relief. We believe also that the tax is too heavy on tobacco.

Representative FLOOD. A great deal of the tobacco that is raised in Virginia is not bright.

Mr. BLAIR. Oh, yes. We try to raise it bright all the time, but we can not always do it.

Representative FLOOD. Very little of that dark tobacco has been sold.

Mr. BLAIR. Very little of it has been sold, and their prices are worse than ours, as I understand it.

As I said at first, I am not here to suggest any remedies. In Pittsylvania County about 40 different local organizations were formed spontaneously, without pushing or anything of that kind, with about 2,000 members. Those people just came together because they felt something had to be done, and what they are aiming at is to raise less tobacco and more home supplies. That is what they are aiming for; they did not know what else to do.

I shall not take up your valuable time by going on further. I think have stated enough for you to understand our needs. Those people came together in that way because they felt that something had to be done. The situation is very serious. We are selling our tobacco below the cost of production, and you know what that means.

Senator SMITH of South Carolina. About what did your tobacco cost per pound to produce?

Mr. BLAIR. It has been figured out by a number of farmers and business men. For instance, there is a Mr. Bryan, who owns four large country mercantile establishments. He was asked by one of the big companies to make an estimate, and he figured out what it cost him on four or maybe five farms, and the average of the cost for those five farms was between \$36 and \$37 per hundred. His figures were very conservative. I think the average in our county would be more than that.

Senator CAPPER. Was that the war cost of production?

Mr. BLAIR. That is this year's crop of tobacco. That is what it cost, as many men have figured it out. The general average for the county is between 36 and 40 cents. I would think that 40 cents would be nearer the cost of production than 36 cents, because this man, being a fertilizer agent and getting all of his supplies at wholesale prices, naturally could have produced his tobacco cheaper than the average man. And then, of course, he put his farm in at a low valuation. He priced one farm at \$75 per acre, which he had refused \$100 an acre for.

Senator McNARY. What are the present prices of the various grades of tobacco?

Mr. BLAIR. Well, not much sells under 3 cents a pound, and it goes on up. Take the common lug; that will bring about 3 or 4 cents. Then take another common lug, called red lug—the prices are very uncertain, but that grade of tobacco which will be marked with one letter will range from 10 to 20 cents.

Senator SMITH of South Carolina. What is the average?

Mr. BLAIR. The average price that it is bringing in Danville—they got as high as 29 cents a pound. It went down to about \$4.60 last week; it has been declining the last two weeks. It had been advancing somewhat before that, and we thought that maybe our organization had something to do with it, but it declined last week \$4 and \$5 a hundred, down to about \$25 or \$26.

Senator CAPPER. What would you say the average price was just before the war?

Mr. BLAIR. Just before the war it was a little better than that. The 1913 crop brought something more than that, but I can not tell you just how much—around \$35 or \$36 a hundred was what it brought, and the cost of it was not half what it is now.

Senator CAPPER. About what was the price, say a year ago?

Mr. BLAIR. A year ago they were astonishingly high. A year ago tobacco sold very high. It averaged \$57 a hundred on the whole year at Danville—somewhere around \$57, and probably a little above.

Senator CAPPER. That, of course, would be a very profitable price?

Mr. BLAIR. That was very profitable.

Representative FLOOD. I should think that half of the tobacco that has been sold up to this year has averaged 25 or 26 cents a pound.

Mr. BLAIR. Somewhere near that. The price of fertilizer has advanced about 100 per cent in the last few years.

Representative FLOOD. How much fertilizer do you use on this tobacco?

Mr. BLAIR. We count it per 1,000 hills, and we use about 200 pounds to the thousand hills, and it takes about 4,000 hills to make an acre.

Representative FLOOD. What is the price of fertilizer now, and what was the price of fertilizer in 1913?

Mr. BLAIR. I would have to get that. I know what it is now; it is around \$50 a hundred. It was a little more than half of that before.

Representative FLOOD. About \$28 a hundred?

Mr. BLAIR. Yes.

Representative FLOOD. What is the relative cost of labor now as compared with 1913?

Mr. BLAIR. Well, it is hard to say what the farm labor is, because we can not get the farm labor that we need. I believe the men who work on my farm as "share croppers"—they get half. I furnish the teams, tools, and land, and I get half. If I get those men to work for me a day—that is the only way I can get anything done on my farm—it costs me \$2.50 or \$3 a day and board.

Senator McNARY. Have you had any night riders operating down in your district?

Mr. BLAIR. Nothing at all of that kind; nothing spoken of. And our organization is not going to speak of anything of that kind.

Representative FLOOD. What was the cost of labor in 1913?

Mr. BLAIR. You could get men then for 75 cents a day. You could get them, too, and you can not get them now, and if you could get them you would have to pay four or five times as much.

Representative FLOOD. Three or four hundred per cent higher?

Mr. BLAIR. Yes.

Representative FLOOD. What is the difference in the cost of farm implements?

Mr. BLAIR. Take the Oliver chilled plow that you could buy at between \$5 and \$6 last year; I saw one sell at auction at \$18. They are worth about \$24. I think. The wholesale price of that plow before the war was, I think, about \$6, and now it is \$24. That comes near to the relative value of farming implements, gentlemen.

Representative FLOOD. This crop of tobacco has been made with high-priced fertilizer, high-priced farm implements, and high-priced labor?

Mr. BLAIR. Yes, sir.

Representative FLOOD. And it has gone down below what it was in 1913?

Mr. BLAIR. Oh, yes; it is below that.

Senator SMITH of South Carolina. Do any of the committee desire to ask the witness any further questions? If not, we are much obliged to you, Mr. Blair.

Mr. BLAIR. I thank you gentlemen for your attention.

Senator SWANSON. Mr. Blair is the only witness we desire to present to-day. I desire, however, to put in the record some statistics with reference to the tobacco crop, covering the production by States in 1914, 1919, and 1920, and the exports of tobacco to various countries for several years. To some of these central powers there has really been no export. Last year there were some exports, which made the price high, but this year the exports have stopped entirely.

Another thing I wish to say is that the price of tobacco has been affected by the tax on tobacco. The tax at one time was 8 cents. Subsequently it was made 13 cents a pound, and now it is 18 cents a pound. The internal-revenue tax on tobacco at these high prices has had a tendency to affect it.

I wish to have these statistics inserted in the record.

(The statistics submitted by Senator Swanson are here printed in full, as follows:)

Tobacco, production by States, 1914, 1919, and estimate for 1920.

States.	1914	1919	1920 ¹
	<i>Pounds.</i>	<i>Pounds.</i>	<i>Pounds.</i>
New Hampshire.....	177,000		
Vermont.....	170,000		
Massachusetts.....	11,550,000	15,400,000	16,320,000
Connecticut.....	35,754,000	39,000,000	36,704,000
New York.....	5,980,000	3,750,000	3,072,000
Pennsylvania.....	47,995,000	54,120,000	57,531,000
Maryland.....	17,690,000	19,375,000	27,912,000
Virginia.....	113,750,000	131,100,000	179,653,000
West Virginia.....	8,856,000	10,500,000	11,385,000
North Carolina.....	172,230,000	310,240,000	385,922,000
South Carolina.....	36,500,000	81,000,000	87,750,000
Georgia.....	1,900,000	16,430,000	16,020,000
Florida.....	4,300,000	3,990,000	4,620,000
Ohio.....	78,120,000	77,400,000	73,440,000
Indiana.....	12,150,000	15,215,000	16,110,000
Illinois.....	468,000	525,000	525,000
Wisconsin.....	53,808,000	60,960,000	63,210,000
Missouri.....	4,920,000	3,500,000	3,900,000
Kentucky.....	364,000,000	450,500,000	420,750,000
Tennessee.....	63,468,000	88,000,000	71,467,000
Alabama.....	140,000	1,890,000	1,485,000
Louisiana.....	280,000	174,000	248,000
Texas.....	116,000		
Arkansas.....	427,000	456,000	420,000
United States.....	1,034,679,000	1,389,458,000	1,476,444,000

¹ Estimated.

1914-1918, 5-year average for United States, 1,187,708,000 pounds.

Source of figures: 1914, United States Department of Agriculture, Yearbook, 1914, page 581. 1919 and 1920 (estimate), United States Department of Agriculture Monthly Crop Reporter, November, 1920, page 123.

Exports of tobacco to countries mentioned.

	Calendar year 1914.	Fiscal year 1915.	Calendar year 1919.	Fiscal year 1920.
Unmanufactured:				
Leaf.....pounds.	347,295,269	348,346,091	765,959,975	632,773,620
Belgium.....do.	5,274,270	1,131,439	48,732,407	49,635,068
Denmark.....do.			19,356,404	14,701,715
France.....do.	34,114,244	37,710,975	81,717,141	52,328,375
Germany.....do.	16,704,466	10,018,503		
Italy.....do.	32,448,365	24,279,246	43,623,888	34,824,867
Netherlands.....do.	19,556,952	21,223,143	63,319,468	62,854,196
Norway.....do.			9,362,179	7,449,798
Portugal.....do.			6,900,562	3,707,743
Spain.....do.	6,906,156	7,030	24,271,345	12,552,573
Sweden.....do.			12,583,903	14,638,006
Switzerland.....do.			14,443,161	8,010,014
United Kingdom.....do.	159,640,292	189,345,349	338,813,420	256,207,064
Other Europe.....do.	14,198,612	13,230,929		
Canada.....do.	15,829,875	16,156,268	19,850,798	20,234,154
Mexico.....do.			1,934,805	1,809,795
South America.....do.	3,107,690	3,030,751		
Argentina.....do.			4,488,051	3,170,192
China.....do.	6,012,098	3,478,641	14,558,402	20,030,471
Hongkong.....do.			5,063,085	2,424,634
Japan.....do.	3,548,490	3,110,555	4,230,513	6,105,225
Australia.....do.			12,702,725	14,186,767

Exports of tobacco to countries mentioned—Continued.

	Calendar year 1914.	Fiscal year 1915.	Calendar year 1919.	Fiscal year 1920.
Unmanufactured—Continued.				
Leaf—Continued.				
British Oceania.....pounds..	13,873,279	9,042,867		
Other Asia and Oceania.....do.	1,625,996	2,679,380		
British Africa.....do.	4,952,482	4,665,691		
British West Africa.....do.			14,017,592	16,206,869
Other Africa.....do.	5,059,491	4,538,615		
French Africa.....do.			8,890,072	6,226,533
Other countries.....do.	4,442,511	4,706,609	17,100,154	25,470,561
Stems and trimmings (included in leaf).....do.			10,724,943	15,264,035
Manufactures of:				
Cigarettes.....thousands..	2,407,226	2,130,212	16,209,769	17,547,371
Belgium.....do.				3,344,933
France.....do.			664,892	173,899
Italy.....do.				2,115,541
Netherlands.....do.				1,359,768
United Kingdom.....do.			1,983,122	1,550,141
Panama.....do.			98,828	124,402
China.....do.	861,387	723,165	6,191,765	5,820,470
British East Indies.....do.	1,201,305	1,133,693		
British India.....do.				705,885
Straits Settlements.....do.			763,768	1,003,607
Siam.....do.			213,306	203,500
Philippine Islands.....do.				153,291
Other countries.....do.	344,534	273,354	6,294,088	991,934
Cigars and cheroots.....do.			50,086	66,874
Plug.....pounds..	6,096,996	5,768,433	5,628,350	4,730,822
Smoking.....do.			6,260,066	4,371,925

Source of figures: Calendar year 1914, United States Bureau of Foreign and Domestic Commerce, Monthly Summary of Commerce and Finances, December, 1914, page 496. Fiscal year 1915, *ibid.*, June, 1915, page 1038. Calendar year 1919, *ibid.*, December, 1919, page 57. Fiscal year 1920, *ibid.*, June, 1920, page 59.

NOTE.—Figures for the fiscal year include exports for year ending with June.

Senator SWANSON. Congressman James is here. I do not know whether he wishes to say anything before the committee or not.

STATEMENT OF HON. ROBERT A. JAMES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA.

Representative JAMES. I have nothing to say, except that I am from that section, and I know the shoe is pinching them down there and they are looking to you for relief. There are several ways of handling this situation that have been discussed by them, but no result has been reached. They just know that they are selling that product at below the cost of production, and the serious part of it is that it seems tobacco has taken a downward turn in the last week or two and the indications are that it will be still cheaper. It is their hope that you will be able to arrive at some means of giving them relief.

Senator McNARY. What is your remedy, Congressman?

Representative JAMES. I have nothing special to suggest. The condition with reference to the common grades of tobacco, as Mr. Blair has stated, is affected somewhat by the inability of Germany and Austria to take our goods. Our better grades go to England, France, and Japan, and are doing very well, but the bulk of all our crops are the medium and lower grades, and there is no sale for them. There is no market for them. We put them on the floor, and they are sold at auction and of course they go at the highest price. But then they have to buy them at a price that they can store them away in the hope of getting something for them. We have had tobacco

shipped over there that has come back. They have no means of taking it and paying for it; there is no credit. That is very hard on us, because the bulk of all our crop is the medium and lower grades, and they sell for a dollar a hundred, some of them.

Senator KENDRICK. Have you any recommendations to make about it?

Representative JAMES. No; I have just said I have no remedy to suggest. We can only give you the situation.

Senator SMITH of South Carolina. You are from the tobacco district?

Representative JAMES. Yes, sir.

Senator SMITH of South Carolina. How much of this unwarranted and unreasonable depression in farm products do you attribute to the feeling at large that has been brought about by the cry all over the country that things were too high, and everybody watching to see where the bottom would be?

Representative JAMES. I do not think that has affected tobacco so much. They simply are not selling. The man that ought to buy it can not buy it. They are getting very good prices for the better grades of tobacco still, but there is very little of that. Mr. Blair told you that the price had been \$28 and \$29 for that. Last week it was \$25 and \$26, so you see it is going down. The dealers have bought and can not sell, and consequently, as they have not an abundance of money, they can not carry it. Some of them are attempting to carry tobacco, store it away. They say it is always safe to buy tobacco below the cost of production, and they have been buying it that way, thinking it would go to the cost of production. But these people have not any money, and consequently it has gone down.

Senator McNARY. Let me ask you a question, Congressman: Have you noticed any decline in the price of the finished product—cigars, smoking tobacco, or cigarettes?

Representative JAMES. No; they have notified the buyers that there would be no decline in the price of their products—I mean the merchants and retail men. They have notified them that there would be no decline.

Senator SMITH of South Carolina. The manufacturers have notified the merchants?

Representative JAMES. The manufacturers have notified the merchants that there would be no reduction in the cost of their goods for the next 12 months, and that they could buy with impunity.

Senator McNARY. So the stuff that is being sold at retail now was purchased at considerably less than the basis of the present retail price?

Representative JAMES. I think not. You see, they do not work up tobacco immediately; they have to mill it and keep it in storage for some time, and they have not yet really got started to work on the tobacco they bought last year. They will probably carry it over a couple of years or three years.

Senator McNARY. And then will these low prices be reflected in the retail prices of cigars, cigarettes, and things of that kind?

Representative JAMES. Well, I do not know about that. They are holding it up arbitrarily, by agreement or understanding, I suppose. There are only a few that control the tobacco trade, and

they have notified their customers that there will be no break in prices.

Senator SMITH of South Carolina. In other words, the manufacturer who bought the high-priced tobacco a year ago will hold up the price of his manufactured article to such a point that he can get back the money he put in, while the man that produced the tobacco must take his loss and go ahead and make some more?

Representative JAMES. Yes, sir.

Senator SMITH of South Carolina. Exactly; it seems to be the rule generally.

Representative JAMES. We think some trouble results from the limited number of buyers. There are only a few people that can buy tobacco. The independents can not buy until they sell, and they are not able to dispose of their crop, and so they are off the market entirely, and the price is entirely governed by what they choose to give. There is no competition on it.

Senator SMITH of South Carolina. So I suppose your recommendation would be to devise some means by which those who purchase the tobacco, those independent buyers who have bought it and are still holding it, may be enabled to hold it until the cost of production—

Representative JAMES. Or they can sell it now and be able to buy more.

STATEMENT OF HON. HENRY D. FLOOD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA.

Representative FLOOD. Mr. Chairman, I should like to inquire how long your hearings are going to continue.

Senator SMITH of South Carolina. The committee set this hour for this hearing on tobacco.

Representative FLOOD. The reason I ask is this: The Farmers' Union of Virginia is in session in Lynchburg to-day, and the representatives of these other types of tobacco are in attendance at that meeting. They could come here to-morrow if the committee could hear them, and present their views in reference to that dark-fife type of tobacco, which is a very different type of tobacco from that which Mr. James and Mr. Blair have been discussing. It is largely an exported tobacco.

Some relief for this situation might be accomplished, in my opinion, by arranging some credits with the foreign Governments that buy this tobacco. It differs from the bright tobacco in that it is exported largely to the different regie governments; that is, the governments that control the entire tobacco trade of their countries—for instance, Austria, France, and Italy. Only the lower grades of this tobacco are used in domestic manufacture and consumption. They are used in snuff.

I have no doubt that the representatives of this type of tobacco would have some concrete suggestions to make of they could be heard here to-morrow.

Senator SMITH of South Carolina. What proportion of your crop is of this export grade?

Representative FLOOD. The Virginia crop?

Senator SMITH of South Carolina. Yes.

Representative FLOOD. Well, I should say that the dark-five type and the sun-cured tobacco are practically half of the crop of Virginia—all of it north of Pittsylvania County and that row of counties along the North Carolina line.

Senator SWANSON. Virginia raises about 113,000,000 pounds of tobacco, and from 50 to 60 per cent of it would be of those darker grades.

Representative FLOOD. I can get in communication with the representatives of this darker type of tobacco and get them here to-morrow. I also have some suggestions that I can make, but I would rather make them after conferring with these men who have made a more careful study of the matter than I have.

(On motion of Senator Smith of Georgia it was agreed that the committee hear further the tobacco growers to-morrow, Thursday, December 9, 1920.)

Senator SMITH of South Carolina. Can you name those Governments that have a monopoly?

Representative FLOOD. Yes, sir; they are Japan, Spain, Italy, France, Austria, and Belgium. I suppose Austria still has that arrangement; Austria-Hungary had. I do not know about the arrangement now, but I suppose it is in both countries.

Senator SMITH of South Carolina. And all sales of tobacco are made to the Government?

Representative FLOOD. Yes, sir; through the agency here.

Senator SMITH of South Carolina. So that a Government agency here might help to formulate some plan?

Representative FLOOD. If the Government agents representing those Governments here are disposed to deal fairly with the producers—and I have found some of them were disposed to do so and others were not—the whole matter of this crop of tobacco could be arranged, because there is no excess of this type of tobacco, and these Governments need it. If our Government is going to extend credit to them, it ought to see that those countries deal fairly with the producers of tobacco. I have often heard the suggestion made that the representatives of these regie governments come here and enter into a conspiracy with the buyers for our local manufactures—the American Tobacco Co., Reynolds, and others—to depress the price of tobacco. I think that situation should certainly be controlled by a little activity on the part of our Government.

Here is a crop of tobacco that averaged last year 30 cents a pound. It was raised this year with the expectation of a large price, with the tremendously high price of fertilizer and labor and agricultural implements and the enhanced price of the land, and now the farmer does not know what he can get. None of it has been sold, or very little of it, and they threaten the farmer with all sorts of prices. That that has been sold has not averaged over 5 or 6 cents a pound.

Representative TINCHER. It is in practically the same condition that the corn crop is in?

Representative FLOOD. Yes, sir; except this. There is no excess of this type of tobacco in existence.

Representative TINCHER. Well, there is not an excess of corn. Now, would not the resolution that this committee has introduced

in the Senate, directing the War Finance Corporation to resume its operations pertaining to agricultural products, include tobacco?

Representative FLOOD. Yes; that includes tobacco, and I think that is a very wise proposition, and I think that to a great extent it will relieve the situation as to this type of tobacco.

Senator SMITH of Georgia. We have just named agricultural products. I think, Mr. Chairman, we should strike out agricultural products and restore it generally; for copper, zinc, or any of our exports that need the backing of the War Finance Corporation to help those who are ready to extend credits abroad, would be affected by the restoration of the War Finance Corporation.

I think we shall find when we come to act upon this measure upon the floor of the Senate or upon the floor of the House, if we cease any kind of class discrimination and broadly ask that the War Finance Corporation resume operations, and give the backing of this great reservoir of \$1,000,000,000 to the various exporters and the various financial organizations of the country, they will feel that they have got something to fall back on for help if they need it.

Now, that is the great value of this War Finance Corporation; not simply the money that it immediately extends, but the courage and the assurance it gives to others. And I believe before we get through we will broaden it and simply provide that the War Finance Corporation resume operations.

Representative FLOOD. I think that agriculture has received the worst blow in the fall in prices, and deserves the first protection. I have no objection to this measure. I want to say, Mr. Chairman, that I am just as much interested in protecting the price of our corn and wheat as I am tobacco, not only because I am interested from the standpoint of the whole country, but because half of my district is in the valley of Virginia, and a very large quantity of corn and cattle is produced there.

Senator SWANSON. I wish to say also, with reference to these regie contracts, that individuals can not deal with these foreign Governments, the Austrian Government, the Japanese Government, and the Belgian Government, and these governments that have a monopoly of the tobacco business. Some relief ought to be given the producers as against these government monopolies. I would like to have the committee look at that phase of it in connection with this legislation. I want the committee to consider that the producers can not deal with individuals where they have these monopolies, but they must deal with governments, and they are absolutely at their mercy.

Senator SMITH of Georgia. Would not the details of any plan rest with the War Finance Corporation?

Senator SWANSON. I think so.

Senator SMITH of Georgia. And the existence of this governmental organization, prepared to give these credits, will meet the very difficulty that the Senator from Virginia mentioned.

Senator SMITH of South Carolina. The committee has agreed to hear further the tobacco growers to-morrow at 10.30.

Senator SWANSON. I thank you very much, Mr. Chairman.

Senator SMITH of South Carolina. Senator Capper has indicated that there are certain agricultural interests from the West that desired to be heard this morning.

Senator CAPPER. I would like to have you hear Mr. Thompson.

Senator GRONNA. Mr. Chairman, I overlooked the fact that last night I promised Senator Walsh that Mr. Hagenbarth, of the wool-growers, might be heard briefly this morning. Now, Senator Capper, if your friends are pressed for time perhaps they would be willing to yield to them.

STATEMENT OF MR. F. W. THOMPSON, VICE PRESIDENT MERCHANTS LOAN & TRUST CO., CHICAGO, ILL.; ALSO PRESIDENT FARM MORTGAGE BANKERS ASSOCIATION.

Mr. THOMPSON. I think my statement will be very short, gentlemen; it will be the statement of a remedy and nothing else. I shall not encroach upon your time.

I am vice president of the Merchants Loan & Trust Co., of Chicago, and vice president of the Farm Mortgage Bankers Association. I have been associated with farmers for the last 15 years.

I listened with a good deal of interest to what Senator Smith had to say with reference to the situation, and he practically took my speech out of my mouth. I have this to say, that the problem of the farmer is the problem of the banker, the country banker. I have been one. I have had 10 or 15 years' experience in the country banking business. I was a bank examiner in the State of Iowa for four years, and I know what I am talking about when I say that there is no common bond greater than the bond between the farmer and his rural banker, social or financial. So that if the farmer has a problem it immediately reflects itself in the country bank with which he does business.

I have seen all sides of country banking, and I am now engaged in the business of a large bank which, in turn, does business with these smaller banks. You gentlemen may or may not know that it is the business of the bankers in reserve cities to attempt at least to regulate the loans that they make to country bankers upon their balances, somewhat after the fashion of the Federal reserve bank. In other words, if a man has \$15,000 credit with us, we think he is entitled to around four times that amount in case of stress; that is, a \$60,000 credit.

The Federal reserve bank establishes a basic line upon which they may make loans. They figure it out something like this: A member bank can ask for and is entitled to credit upon the amount of the reserve it has with the Federal reserve bank, less 35 per cent, which the law requires the Federal reserve bank must carry, plus his contribution to the stock of the Federal reserve bank multiplied by two and one-half. In other words, a man having \$100,000 balance is entitled, if that average balance is maintained during the month, to a loan of around \$175,000.

Now, they get that, and they have been getting more than that; member banks have been getting more in this great western country of ours, and in fact in the southern country as well, from the Federal reserve banks; but it is a fact that they have recognized the stress that has been placed upon them and that they have extended their credits beyond what the law contemplates. I have figures to substantiate that statement.

Now, there are more State banks in this country than there are national banks, and so State banks come to us and they say, "We have to have credit." "All right; we will just base it upon your reserve that you carry with us, because that is the basis of our loaning power. How much do you want?" "Well, I have got to have so much money."

Well, now, we have loaned State banks—when I say "we" I mean the banks in such towns as Topeka, Atlanta, Memphis, St. Louis, Des Moines, Sioux City, Denver, any of these towns that are represented in the so-called reserve sections—we have loaned these men a vast sum of money, and gentlemen, the money that we loan to a State bank to-day is absolutely frozen. We can not get credit on it, because it is not rediscountable or eligible at a Federal reserve bank. But we have continued to do that up to a point where it is getting dangerous to the country bank. We have collateral, and 90 per cent of it—and I am just one of that type—90 per cent of it is collateralized by farmers' paper.

Senator GRONNA. I was going to ask you, Mr. Thompson, for the remedy.

Mr. THOMPSON. I am just coming to that. This is an attempt to indicate why I think this remedy will work out.

I think that the War Finance Corporation, if it is premitted by law to rediscount paper, should have the power to rediscount this frozen paper that is not eligible for discount with the Federal reserve bank, thus releasing the pressure that has been put upon country banks all over the country, and to that extent I think that two hundred, three hundred, or possibly five hundred million of dollars will be required. That money would be rediscounted and indorsed by the best banks of the reserve cities of the United States to-day. You can absolutely assure the repayment of those rediscounts within one year, because we have the credits when they are moved, and they can surely retire all that it will be found necessary to rediscount with the War Finance Corporation.

Now, the War Finance Corporation as it is constituted to-day can not do a foreign business, as I understand it, without some amendment to the law.

Senator SMITH of Georgia. What do you mean by that?

Mr. THOMPSON. I mean they have no right to make loans—

Senator SMITH of Georgia. They have the express authority under the amendment which we passed in March, 1919, to use a billion dollars to aid those engaged in the export business.

Mr. THOMPSON. I am very glad to know that.

Senator SMITH of Georgia. We put in that amendment, the Finance Committee of the Senate reported that amendment in March, 1919, and they are authorized to utilize their paper to raise a billion dollars, to be devoted exclusively to the export trade or to financing the credits that are essential for exports.

Mr. THOMPSON. That is fine. I say amen to that.

Senator SMITH of Georgia. Now, if they could move some of these farm products, if they could start the currents of trade by giving these credits, that would liquidate your paper?

Mr. THOMPSON. It would in time.

Senator SMITH of Georgia. It would help immensely.

Mr. THOMPSON. It would help immensely. I agree with you on that.

Representative TINCHER. Mr. Thompson, you remarked that a State bank's paper in your hands is classified as frozen paper. I suppose you are a member of the Federal reserve system?

Mr. THOMPSON. I am; yes.

Representative TINCHER. Do you mean that under the law it would require an amendment to our Federal reserve law to enable the Federal reserve bank to take that paper, you being a member, for security, that security being taken from a State bank that is not a member?

Mr. THOMPSON. That would help.

Representative TINCHER. Here is the point I am making. As I understand the Federal reserve law now, you can take the paper from a nonmember bank and you, being a member bank, can use that paper?

Mr. THOMPSON. As I understand it, we can not.

Senator SMITH of Georgia. Being a member, you have the right to indorse it, just as you could indorse a merchant's paper.

Mr. THOMPSON. They won't do it.

Representative TINCHER. That is a matter of administration, and not a matter of law. The law permits them to do that.

Mr. THOMPSON. That is all right; I am not asking you to do that.

Senator SMITH of South Carolina. Do you think that is an arbitrary rule that has been adopted to force State banks into the system?

Mr. THOMPSON. I think it is.

Senator SMITH of South Carolina. That is what we want to get at.

Senator GRONNA. While you are on this question I want to add this to what Senator Smith stated with reference to this billion dollars. On November 30, 1920, there was a balance due from the Treasurer of the United States of \$374,313,493.89, which of course could be used immediately, so that the Finance Corporation is not without funds.

Mr. THOMPSON. That is a good point, Senator.

Senator SMITH of Georgia. But I do not think a dollar of that would have to be used from the Treasury. I believe their paper can easily be handled, as it has been handled before, backed by this credit in the Treasury, making this paper that much better paper. And nobody questions the fact that the War Finance Corporation can handle—

Mr. THOMPSON. I do not think we have any differences about that. What I am principally interested in is what we can do now, not what will take place three or four or five months from now. I tell you the situation of the country banks to-day is desperate, and the banks are failing throughout the country. A bank in Iowa was reported—I know the bank; I used to examine it. They put a sign on the door, "We can not collect our bills; we are closed."

Senator SMITH of Georgia. In other words, if the War Finance Corporation, with its capital, would take this paper that is not rediscountable at the Federal reserve centers you would liquify the matter?

Mr. THOMPSON. At once, and that would help the country bank situation tremendously.

Senator SMITH of Georgia. Why is it that you being a member bank, they decline to rediscount this paper from the country banks?

Mr. THOMPSON. I do not know, Senator.

Senator SMITH of Georgia. Don't you understand that the law authorizes it now? You are a member bank in the Federal reserve system, and have the right to rediscount your paper with them. Of course you are limited as to the length of time. Your farm secured paper runs six months, and your ordinary paper not more than 90 days. Your paper must be of a character falling within the liquid provisions of the Federal reserve banking act.

Mr. THOMPSON. May I state, to the contrary of what seems to be the impression, that a farmer turns his capital in one year; that is a mistake. A farmer turns his capital about once in four years, and that six months' provision is a farce so far as the average farmer is concerned.

Senator McNARY. Are you speaking of his liquid capital, or the capital that is invested?

Mr. THOMPSON. His invested capital.

Senator McNARY. That is a different proposition entirely.

Senator SMITH of Georgia. That provision was not intended to reach invested capital; that was put in to facilitate credits for the production of his crop, upon the theory that the crop took six months to raise.

Mr. THOMPSON. It really takes longer than that, Senator; they do well if they get through on a year. What I say is that a frozen credit means loans made to country banks and based upon farmers' paper that will extend beyond the six months' period.

Senator SMITH of Georgia. They can not materialize at all on their farmers' paper, and therefore they can not pay you?

Mr. THOMPSON. No.

Senator SMITH of Georgia. And therefore your paper taken from them is in no sense liquid, but frozen?

Mr. THOMPSON. It is frozen.

May I also say this? I see the Treasury Department has authorized a new issue of certificates bearing $5\frac{1}{2}$ and 6 per cent, and they are asking the bankers to take this paper, to take these certificates liberally. Now, when you stop to think that a country banker is paying 4 per cent on his time certificates and he is asked to take this paper and put it out, he naturally takes that certificate and slips it in the place of a United States certificate. That is on top of the fact that he is unable to collect from his borrowers. I tell you the situation demands immediate relief.

Senator GRONNA. Is it not true that what we need more than anything else is an outlet for our products?

Mr. THOMPSON. Ultimately so, Senator.

Senator GRONNA. Not so much in asking some one to take this paper, or to give value received or to get expenses, but to get money out in the country, something that can be used to pay debts with.

Mr. THOMPSON. I absolutely agree with you.

Senator GRONNA. Before you go any further, Mr. Thompson, I want to say you are mistaken about the provisions of the law and the powers of the Finance Corporation. I ask to have printed section 21 (a), which reads as follows:

That the corporation shall be empowered and authorized, in order to promote commerce with foreign nations through the extension of credits, to make advances upon such terms, not inconsistent with the provisions of this section, as it may prescribe, for periods not exceeding five years from the respective dates of such advances.

This is a corporation with a capital stock of \$500,000,000, and it can go on and issue its bonds and certificates to an amount of six times its capital stock.

Mr. THOMPSON. I understand it; it can multiply that by six times.

Senator GRONNA. It specifically provides that they can do the very things that we under this resolution are hoping they may do; namely, to deal with foreign nations.

Senator SMITH of Georgia. But you are asking for still further relief?

Mr. THOMPSON. I am asking for immediate relief.

Senator SMITH of Georgia. You approve most cordially of the resumption of work by the War Finance Corporation?

Mr. THOMPSON. I most certainly do.

Senator SMITH of Georgia. But you also want it to have authority to aid in liquidating for you this frozen paper?

Mr. THOMPSON. Not for us, but for the country.

Senator SMITH of Georgia. I do not mean for you; I mean for your class.

Mr. THOMPSON. I understand; yes, sir.

Senator SMITH of Georgia. To aid in liquidating this frozen paper, that the country bank may be saved and that the farmer also may be saved?

Mr. THOMPSON. Surely. When the country banker is relieved, he says, "Why, Bill, I will carry you just as long as these fellows will carry me."

Senator SMITH of Georgia. And your suggestion is an additional remedy for the immediate emergency?

Mr. THOMPSON. Yes, sir. I want to say another thing. I would be in favor of limiting the rate of interest at which a piece of paper would be rediscountable at the War Finance Corporation, so that there would not be a dollar of profit to the man that discounted the paper. We want to relieve the situation in the country, and it needs it, gentlemen. I am not an alarmist or anything of the kind, but I do know some of the problems that are to-day affecting the banker in his demand upon the farmer that he pay and the demand upon the city banker that he deflate, and they are all up in the air.

Representative TINCHER. Mr. Thompson, there is a movement on foot by the Federal Reserve Board to deflate the currency. They do not need any amendment to the Federal reserve act to enable the Federal reserve bank to take nonmembers' paper from you, a member bank.

Mr. THOMPSON. I understand you on that.

Representative TINCHER. You are in favor of the Federal reserve banks resuming as well as the War Finance Corporation resuming, as I understand you?

Mr. THOMPSON. On eligible paper, yes.

Representative TINCHER. Suppose they are successful under this arbitrary rule of not permitting non-member banks' paper to be discounted in the Federal reserve banks. That will force all of the State banks' reserves into the Federal reserve banks, will it not?

Mr. THOMPSON. Naturally.

Representative TINCHER. And that would enable them then to deflate the currency, as they term it, at their will and pleasure—if it is all in their banks?

Mr. THOMPSON. Yes.

Representative TINCHER. Now, what the farmer really needs—see if I am right about this. One farmer has 40 bushels of corn. Another farmer has a steer. The farmer that has the corn can not buy the steer, and the farmer that has the steer can not buy the corn. No matter if he could take the corn and make a dollar a bushel out of it by feeding the steer, he can not do it—

Mr. THOMPSON. Yes; he can.

Representative TINCHER. You mean he can get the credit?

Mr. THOMPSON. Yes, sir.

Representative TINCHER. I am glad to hear that.

Mr. THOMPSON. We have told our people that if they have either the corn or the cattle or the hogs and lack money for any one of them we will furnish the money, providing that it is ear-marked so that we know it is going to be liquidated at its maturity. The Federal reserve bank is doing the same thing. We got authority from the head of the Federal reserve bank of the seventh district—the Chicago district. I said to him, "If a bank has its basic line at present, what will be your attitude toward an increase, providing that that increase represents the feeding of corn to cattle, sheep, pigs, or whatever it may be, provided that that man who borrows from his local member bank and whose paper is rediscounted at the Federal reserve bank gives a lien upon either the corn or both the cattle and the corn and gives a definite security which does not extend beyond six months? Will you take that paper?" He said yes.

Representative TINCHER. Well, he says that, but the man that has got the cattle—

Mr. THOMPSON. He has been unfortunate, probably, in going to somebody that has abused his privilege in the Federal reserve bank.

Senator GRONNA. Let me say this. I dislike very much to be a witness before this committee, but let me tell you what happened in St. Paul the other day. Since you have brought this up, I think I might just as well tell the truth.

We had over a hundred head of large cattle which we shipped to St. Paul. We found the markets demoralized, and we wanted to ship them to Chicago, or to Illinois rather, and feed them. We could not get a loan of a dollar on those cattle.

Mr. THOMPSON. Whom did you go to, Senator?

Senator GRONNA. We went to the people right there in St. Paul and Minneapolis, and they said they were not advancing a dollar on cattle. The ninth Federal reserve district does not furnish any money to the producers of the country.

Mr. THOMPSON. Then there is something wrong with the ninth district; that is all. That might be attributed to bad management out there; I can not tell about that.

Senator GRONNA. I just want that to go in the record, that the country is not being supplied with money. The feeders and purchasers of cattle are not being furnished with money.

Representative TINCHER. I am told, Mr. Thompson, that the leading stock men of Kansas, men who have financial ability, can not borrow as much as \$10,000 for either of the purposes I have mentioned through the Federal reserve system.

Mr. THOMPSON. Does not this all come back to the point that these banks have all over-extended themselves on paper that is not liquid?

They have so much of it on hand at the present time that they have ruined their chances to loan anything upon actual needs.

Senator GRONNA. Do not misunderstand me. So far as my little institution is concerned, we do not belong to the Federal Reserve system. We are not complaining about that. We do not owe them a dollar, of course. But I am not speaking now of a single case; I am speaking of conditions as they exist in the western country, and especially in the ninth district, and the governor of that institution there has for more than a year made it his business to preach deflation and the withdrawing of loans. I know the object of that. I am ready to face him and discuss the question any time.

Mr. THOMPSON. As a general proposition, it is a poor time in hard times to call for deflation. The time to call for deflation is when things are good, to keep them from speculating.

Senator SMITH of South Carolina. Is it not your opinion that this universal cry of deflation brought on the hard times, largely?

Mr. THOMPSON. No; I do not think so. We have all contributed to the fact that prices have fallen. Prices were well beyond any rational idea of prices. Of course it was forced by this war; there is no question about that. The war brought on increased costs in everything, and consequently the prices of all articles had to rise. But since the war is over the purchasing power of the countries to which we have sent our goods has decreased to such a tremendous extent that to-day France has to pay about \$5.25 for a dollar's worth of stuff here; Germany about \$16, Austria about \$66, England about \$1.40, Denmark \$2, Norway \$2, Sweden \$1.40, Holland \$1.33. I talked with a gentleman about that the other day, and he said, "Why, do you think we are going to do anything that is going to increase the cost of stuff that we have to buy? Why, no; we are going to reduce our purchases to the actual necessities."

Senator GRONNA. Everything you have said there is true, Mr. Thompson; but it is also true that we have been paying to foreign countries which have shipped in foreign products to us from 12 to 15 per cent premium. Take the cattle that are being shipped in here from the Dominion of Canada, and all the wheat and other cereals. We are paying the farmers of Canada a premium of not less than 15 per cent to-day.

Mr. THOMPSON. About 13 per cent to-day, Senator.

Senator GRONNA. Isn't that true?

Mr. THOMPSON. Yes, sir; that is true.

Representative TINCHER. Mr. Thompson, Congress passed an amendment to the War Finance Corporation act in the spring, subsequent to the signing of the armistice, intended, as I understand it from the Senators, as a reconstruction measure. Now, last spring, I think in June, the Secretary of the Treasury suspended the operation of that corporation for the purpose of deflating the currency. Do you think that the currency is sufficiently deflated now, so that we should resume activities under the War Finance Corporation act, intended as a reconstruction measure?

Mr. THOMPSON. Well, I do not know. I can not give you an answer to that. It would be a ridiculous and suicidal policy, in my judgment, to give out any impression that the farmer or anybody connected with the farm should be obliged to make a complete liquidation. It would be suicidal. But I have this to say, that I think

this committee ought to recommend that at least they start something. If they keep 80 per cent of their crop, well and good; but they must start something. They must send 10 per cent of their wheat, or 20 per cent of their grain or cotton, and that of itself will produce enough money so that it will liquidate probably five times the amount of goods sold. In other words, the process of debt paying would liquidate at least four times the amount of product you might sell.

Senator SMITH of South Carolina. They could not do that in the South right now, because, as the tobacco growers have complained, there is really no market. Any grade of cotton below middling is 5 or 6 cents a pound.

Mr. THOMPSON. I know, but they have ginned already nearly 8,000,000 bales of good cotton.

Senator SMITH of South Carolina. Oh, no; about 8,000,000 bales; but that includes all kinds.

Mr. THOMPSON. Of this year's crop?

Senator SMITH of South Carolina. Oh, yes; I am speaking of this year's crop.

Mr. THOMPSON. I would like, if possible, to have this paper incorporated in the record, Senator. It is so long I do not care to read it.

Senator SMITH of South Carolina. Without objection, we will just have this incorporated in the record.

(The document submitted by Mr. Thompson is here printed in full, as follows:)

THE CRISIS IN AMERICAN AGRICULTURE.

THE VITAL CONCERN OF ALL THE PEOPLE IN THE PROBLEM.

Farming is America's greatest industry, producing over \$20,000,000,000 of new wealth every year.

At least one-half of every dollar of income in this country comes from the farm, or, expressed in another way, agriculture produces at least half of the fund which supports the national population.

Forty-five per cent of the population is agricultural. In other words, nearly one-half the purchasing power of the country is dependent on agricultural prosperity.

These statements demonstrate that the very life of the nation demands the maintenance of the agricultural population in a condition of relative prosperity. If the farmer is forced into what amounts to bankruptcy, he must curtail operations, and stop buying. In other words, the entire business of the country would fail if the farmer fails. He is the keystone of the arch. He supports the manufacturer, the merchant and the laborer. The railways depend on him to keep them running. The Government itself could not function without his financial support. It must be obvious, therefore, that the welfare of the country as a whole is at stake unless immediate and adequate relief is forthcoming for the situation that now confronts the American farmer.

In the face of such a crisis, the members of the Farm Mortgage Bankers Association of America feel that a very special obligation rests on them to emphasize the problem and to contribute to its solution the best wisdom that 50 years of financing the farmer can supply. This long and intimate knowledge of the farms' problems necessary to success in the gigantic task of financing the agricultural development of the United States is the basis for the following statement of the needs and of remedies proposed and which was prepared at a conference of the board of governors on November 22 last.

There can be no valid objection to the farmer bearing his just share of the burden of deflation which the entire world now confronts. The point at issue is that the farmer is obviously bearing an undue share of the burden at the present time, with results which threaten not only hardship to the farmer but virtual bankruptcy in many quarters, both to the farmer and his many creditors. Such a result would be a national disaster, threatening business chaos, and the future food supply of this country and the world.

To illustrate the disproportionate degree of deflation to which the farmer is subjected it may be pointed out that when the farmer is asked to take 30 cents for his corn, little more than \$1 for his wheat, 11 cents for his cotton, less than \$10 for his hogs, and \$7 for his cattle, he should be able to buy other commodities, if deflated in like ratio, at prices far below present levels. For example, gasoline should not cost him over 12 cents, coal \$5, a \$10 hat \$4, a \$10 pair of shoes \$4. Furthermore, labor now asking 10 cents a bushel for husking corn should not get over 4 cents. It must also be recalled that when the farmer ships his product he must pay transportation costs ranging from 33½ per cent to 100 per cent more than before the war period.

The cumulative effect of this fall in prices, unprecedented in the history of the country, makes the situation all the more serious, for it affects not only the 1920 crop, but an unusually large carry-over from the 1919 crop. To further aggravate the situation, the large acreage of wheat planted in the fall of 1920 is within seven months of harvest.

It seems to be generally admitted that the great difficulty is want of confidence in the stability of prices, even at present low levels in the face of present strained credit conditions. In other words, there is no buying in the market because the prospective purchaser at home and abroad is afraid of prices being forced still lower, even though it is obvious that lower prices can only be brought about by what amounts to the bankruptcy of the producer. Absence of credit facilities contributes to this hesitation by cutting off the purchasing power of both foreign and domestic buyers and destroying the power of farmers and breeders themselves to market their products in orderly fashion. We, therefore, have the anomalous situation of demoralized markets in spite of the fact that there is admittedly no over supply of farm products in the face of world needs, and that prices at all fairly reflecting a supply and demand basis would be much higher than present levels.

Inasmuch as the present situation has been largely brought about by necessary Government interference with what would otherwise be the restraining effect of the law of supply and demand, it is quite reasonable to appeal to the Government—which was compelled to create this situation—to relieve it so far as it may do so without violation of economic principles. Precedent for such action in behalf of the agricultural interests may be found in the action of the Government in relieving the railroads of too sudden a readjustment on their return to private ownership; it can not be denied that the farming industry is just as important to the foundations of national prosperity as the transportation industry.

THE NEEDS AND PROPOSED REMEDIES IN DETAIL.

(1) *Need.*—Some plan to relieve the banks in the reserve centers of their present load of paper ineligible for discount with the Federal reserve banks.

Remedy.—If the banks in the reserve centers could transfer this burden to some other agency for a year's time, there would be released an entirely adequate amount of credit for present needs of both agriculture and general business and for the relief of country banks which are now compelled to exercise undue pressure on their customers, and, worse, still, to refuse to furnish their farmer customers essential credit for carrying on their operations. This relief is fundamental to the relief of the other needs enumerated below, and mature consideration suggests a revival of the War Finance Corporation as the best immediately available agency for taking over this burden. We, therefore, urge the immediate revival of the War Finance corporation with specific powers and instructions to accomplish this end, with the stipulation that the Corporation should assume no paper carrying a higher rate than 7 per cent. This measure is intended for relief, not as a means of profit.

(2) *Need.*—Plans for financing foreign purchases of United States farm products.

Remedy.—See discussion under each product.

(3) *Need.*—Means of financing the marketing of accumulated stocks in the hands of the farmer, so as to distribute the pressure on the market over the entire marketing year, month by month.

Remedy.—See discussion under each product.

(a) In this connection it is recommended that the farmers be urged to sell at once part of their holdings, from 10 per cent to 25 per cent preferably. There is abundant evidence that the farmers will respond to this request, and such a partial liquidation will of itself greatly relieve the strain.

(4) *Need.*—Measures to relieve the breeders of the necessity of liquidating breeding herds and animals not yet ready for market.

Remedy.—See discussion under each product.

The last three mentioned needs are considered below in relation to the major farm products, so that specific remedies for the needs presented in connection with these products may be mentioned in direct relation to them.

Wheat.—At the outset, it must be recalled that the situation in this grain is by no means the result of normal conditions. It is the result of the pressure brought to bear on the farmer during the war to produce wheat "to win the war," no matter what the cost. In responding to this appeal the farmer and his family worked early and late; he paid war prices for his supplies; competed with the wages of munitions factories in hiring his labor, and put into cultivation land which ordinarily would not be regarded as profitable for this use. As a result, the crops now ready for sale were produced at costs entirely beyond ordinary standards, and founded rather on the needs of war than the dictates of business prudence. To stimulate production on this basis, prices were fixed as an assurance against loss to the producer, who had thrown caution to the winds in responding to the appeal of the Government.

When the 1919 crop was ready to market, however, the producer, in very many cases, could not sell at these fixed prices because the railways could not furnish cars. When cars were at last available, which was not until the 1920 crop came on, the prices had fallen so far as to be below the cost of production.

If this break in prices had stopped at a level representing fairly the relation of supply to demand, probably no remedy would be required, and the farmer would have to take his inevitable loss. The best authorities, however, are quoted to the effect that there is no more wheat in this country than is now needed for our own consumption, and one of the largest grain firms openly prophesies that wheat will bring a much higher price by June.

Is it surprising that the farmer, therefore, confronting a price of little over a dollar on the farm in the chief producing sections, is convinced that present prices are only temporary and is endeavoring to hold for better prices?

Much has been said of so-called farmers' "strikes," but there is no evidence of any such unpatriotic attitude on the part of any considerable element among the farmers, and the more conservative element, as represented, for example, by the American Farm Bureau Federation, has taken pains to repudiate the idea. There is, however, too much justification in the present situation for the propaganda of the radical element, and much uneconomic and unsocial legislation can only be avoided by the prompt adoption of constructive measures. The disastrous results of Populism are sufficient warning on this score.

A careful study of the facts indicates that the present lack of buying power in the market is not due, as we have pointed out, to over supply, but to lack of financial ability on the part of buyers and a lack of confidence that prices have yet reached bottom. Were prices once to show a steady upward trend, it can not be doubted that they would rapidly approximate fair levels. To restore confidence that grain will not be unduly forced on the market by the bankruptcy of producer and creditor we need just the relief that it would seem can best be provided by reviving the War Finance Corporation and giving it the power before indicated. We believe that this measure would by its psychological effect accomplish the desired end of reestablishing confidence with a minimum financial burden on the corporation and we would make the distinct reservation that the life of the corporation should be restricted to the period of the emergency.

As a permanent measure of relief in financing foreign exports we indorse the formation of corporations under the Edge bill, one of which we understand is this month in process of formation.

Corn.—The bountiful corn crop of this year has depreciated in price far below the cost of production, not so much on account of over-production as because of the fact that the normal consumption of corn for cattle feeding is seriously diminished on account of the demoralized cattle market and the inability of cattle men to finance themselves in buying cattle to feed and in many cases even to hold the cattle they now own to maturity. It is difficult for farmers to borrow new money to buy either feed or cattle. For that reason we can not, as in normal years, by feeding cattle, make corn selling at 30 to 40 cents worth \$1 by feeding it to cattle. In other words, if the cattle industry were functioning as usual it would largely absorb what appears to be an overproduction and would cause the price of corn to harmonize with at least the cost of production or its worth as feed, which would be largely in excess of the cost of production.

Cattle, hogs, and sheep.—From all over the country comes the story of the great loss now being sustained by every one engaged in the live-stock industry. The story is the same everywhere—of inability to finance new purchases and in many cases to carry to maturity and satisfactory marketing conditions the present herds, or, even to retain the breeding herds. Unless the industry can be saved for the future, what will be the price of meats in the years to come? To-day no industry in the country, so important to all, is suffering such a heavy loss.

Certain banks of reserve cities have already provided a special fund of upward of \$25,000,000 as a partial measure of relief for this serious situation, but here again it is obvious that to prevent a serious crisis, both to the corn farmer and the live-stock farmer, who are so closely related, there must be the relief, which, as before stated, can only be afforded by an agency operating as we have suggested the War Finance Corporation should operate. In this connection, special relief by the use of the funds of the War Finance Corporation, we believe, can best be administered by the banks of the country, especially members of the Federal reserve system, who already have all the facilities and can do the work without expense, loss, or, what is most important, delay.

It must here be pointed out that credits in the live-stock industry must be for periods of more than 6 months—must be for a year, 18 months—even two years. As a permanent agency for furnishing such credits measures like that of Congressman McFadden should be carefully considered.

Cotton.—There is no market for millions of bales of low-grade cotton. It is reported that Germany is the only country in the world with facilities for using this cotton. It is said that Germany wants it, but in order to buy it, must have credit, for which it is said to be in position to offer security. Certain banking interests in the South have already made a beginning in financing the export of this cotton to Germany, but present banking resources are already overstrained, not only by domestic demands, but by the burden of over two and a half billions of credits to American exporters already outstanding. Here again as a permanent means of relief the operation of corporations under the Edge bill offer a hopeful solution, but in the interim the facilities of the War Finance Corporation asked for above seem necessary to prevent serious distress in the cotton States.

CONCLUSION.

In pressing for relief in the measures above proposed, and notably through the revival of the War Finance Corporation, we reiterate our conviction that measures of Government relief are forced by the complete degree of Government control during the war and are warranted by the necessities of a transition period.

Paternalistic measures should, however, be regarded purely as emergency measures and acts providing for them should curtail their life and should encourage the substitution for them of proper private agencies as rapidly as possible.

We would also again emphasize the feeling that the present situation is chiefly due to lack of confidence and the present strain on our credit facilities. We believe that the initiation of these proposed relief measures will restore confidence and bring relief through the ordinary channels of trade to such an extent that the actual use of the measures proposed will be comparatively limited.

The farm mortgage bankers of the country offer—as always—their cooperation in counsel and action.

Senator SMITH of South Carolina. Now, Mr. Thompson has indicated the remedy that he desires to enact. I understand that there are certain representatives of the wool interests that desire to be heard this morning. Senator Capper, you had some gentleman that you wanted to present?

Senator CAPPER. Mr. Thompson was speaking for them. Are there any others here?

STATEMENT OF MR. E. D. CHASELL, SECRETARY FARM MORTGAGE BANKERS ASSOCIATION OF AMERICA, CHICAGO, ILL.

Mr. CHASELL. Mr. Chairman, there is just one matter, relative to some reserve banks not furnishing money. I just merely want to say that they evidently have accommodated their people to the extent of what they consider a prudent accommodation. Some of these Federal reserve banks are in districts where greater demands are made upon them than in other districts. There must be a limit to the amount of paper that a bank can discount with reasonable business prudence. Some of the Federal reserve banks have large reserves on hand, while others have been much reduced.

Senator CAPPER. That is all we have.

(Thereupon, at 11.55 o'clock a. m., the committee adjourned to meet at 10.30 o'clock a. m. to-morrow, Thursday, December 9, 1920.)

THE WAR FINANCE CORPORATION ACT.

[Public, No. 121, 65th Cong.]

AS AMENDED BY ACT APPROVED MARCH 3, 1919.

[Public, No. 328, 65th Cong.]

[Compiled under direction of the War Finance Corporation.]

AN ACT To provide further for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to provide credits for industries and enterprises in the United States necessary or contributory to the prosecution of the war, and to supervise the issuance of securities, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I.—WAR FINANCE CORPORATION.

That the Secretary of the Treasury and four additional persons (who shall be the directors first appointed as hereinafter provided), are hereby created a body corporate and politic in deed and in law by the name, style, and title of the "War Finance Corporation" (herein called the Corporation), and shall have succession for a period of ten years: *Provided*, That in no event shall the Corporation exercise any of the powers conferred by this Act except such as are incidental to the liquidation of its assets and the winding up of its affairs, after six months after the termination of the war, the date of such termination to be fixed by proclamation of the President of the United States.

SEC. 2. That the capital stock of the Corporation shall be \$500,000,000, all of which shall be subscribed by the United States of America, and such subscription shall be subject to call upon the vote of three-fifths of the board of directors of the Corporation, with the approval of the Secretary of the Treasury, at such time or times as may be deemed advisable; and there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$500,000,000, or so much thereof as may be necessary for the purpose of making payment upon such subscription when and as called. Receipts for payments by the United States of America for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury, and shall be evidence of stock ownership.

SEC. 3. That the management of the Corporation shall be vested in a board of directors, consisting of the Secretary of the Treasury, who shall be chairman of the board, and four other persons, to be appointed by the President of the United States, by and with the advice and consent of the Senate. No director, officer, attorney, agent, or employee of the Corporation shall in any manner, directly or indirectly, participate in the determination of any question affecting his personal interests, or the interests of any corporation, partnership, or association, in which he is directly or indirectly interested; and each director shall devote his time, not otherwise required by the business of the United States, principally to the business of the Corporation. Before entering upon his duties, each of the four directors so appointed, and each officer, shall take an oath faithfully to discharge the duties of his office. Nothing contained in this or any other Act shall be construed to prevent the appointment as a director of the Corporation of any officer or employee under the United States or of a director of a Federal reserve bank.

Of the four directors so appointed, the President of the United States shall designate two to serve for two years, and two for four years; and thereafter each director so appointed shall serve for four years. Whenever a vacancy shall occur among the directors so appointed, the person appointed director to fill any such vacancy shall hold office for the unexpired term of the member whose place he is selected to fill. Any director shall be subject to removal by the President of the United States. Three members of the board of directors shall constitute a quorum for the transaction of business.

SEC. 4. That the four directors of the Corporation appointed as hereinbefore provided shall receive annual salaries, payable monthly, of \$12,000. Any director receiving from the United States any salary or compensation for services shall not receive as salary from the Corporation any amount which, together with any salary or compensation received from the United States, would make the total amount paid to him by the United States and by the Corporation exceed \$12,000.

SEC. 5. That the principal office of the Corporation shall be located in the District of Columbia, but there may be established agencies or branch offices in any city or cities of the United States under rules and regulations prescribed by the board of directors.

SEC. 6. That the Corporation shall be empowered and authorized to adopt, alter, and use a corporate seal; to make contracts; to purchase or lease and hold or dispose of such real estate as may be necessary for the prosecution of its business; to sue and be sued; to complain and defend in any court of competent jurisdiction, State or Federal; to appoint, by its board of directors, and fix the compensation of such officers, employees, attorneys, and agents as are necessary for the transaction of the business of the Corporation, to define their duties, require bonds of them and fix the penalties thereof, and to dismiss at pleasure such officers, employees, attorneys, and agents; and to prescribe, amend, and repeal, by its board of directors, subject to the approval of the Secretary of the Treasury, by-laws regulating the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed, and prescribing the powers and duties of its officers and agents.

SEC. 7. That the Corporation shall be empowered and authorized to make advances, upon such terms, not inconsistent herewith, as it may prescribe, for periods not exceeding five years from the respective dates of such advances:

(1) To any bank, banker, or trust company, in the United States, which shall have made after April sixth, nineteen hundred and seventeen, and which shall have outstanding, any loan or loans to any person, firm, corporation, or association, conducting an established and going business in the United States, whose operations shall be necessary or contributory to the prosecution of the war, and evidenced by a note or notes, but no such advance shall exceed seventy-five per centum of the face value of such loan or loans; and

(2) To any bank, banker, or trust company, in the United States, which shall have rendered financial assistance, directly or indirectly, to any such person, firm, corporation, or association by the purchase after April sixth, nineteen hundred and seventeen, of its bonds or other obligations, but no such advance shall exceed seventy-five per centum of the value of such bonds or other obligations at the time of such advance, as estimated and determined by the board of directors of the corporation.

All advances shall be made upon the promissory note or notes of such bank, banker, or trust company, secured by the notes, bonds, or other obligations, which are the basis of any such advance by the corporation, together with all the securities, if any, with such bank, banker, or trust company may hold as collateral for such notes, bonds, or other obligations.

The corporation shall, however, have power to make advances (a) up to one hundred per centum of the face value of any such loan made by any such bank, banker, or trust company to any such person, firm, corporation, or association, and (b) up to one hundred per centum of the value at the time of any such advance (as estimated and determined by the board of directors of the Corporation) of such bonds or other obligations by the purchase of which financial assistance shall have been rendered to such person, firm, corporation, or association: *Provided*, That every such advance shall be secured in the manner described in the preceding part of this section, and in addition thereto by collateral security, to be furnished by the bank, banker, or trust company, of such character, as shall be prescribed by the board of directors, of a value, at the time of such advance (as estimated and determined by the board of directors of the Corporation), equal to at least thirty-three per centum of the amount advanced by the Corporation. The Corporation shall retain power to require additional security at any time.

SEC. 8. That the Corporation shall be empowered and authorized to make advances from time to time, upon such terms, not inconsistent herewith, as it may prescribe, for periods not exceeding one year, to any savings bank, banking institution, or trust company, in the United States, which receives savings deposits, or to any building and loan association in the United States, on the promissory note or notes of the borrowing institution, whenever the Corporation shall deem such advances to be necessary or contributory to the prosecution of the war or important

in the public interest: *Provided*, That such note or notes shall be secured by the pledge of securities of such character as shall be prescribed by the board of directors of the Corporation, the value of which, at the time of such advance (as estimated and determined by the board of directors of the Corporation) shall be equal in amount to at least one hundred and thirty-three per centum of the amount of such advance. The rate of interest charged on any such advance shall not be less than one per centum per annum in excess of the rate of discount for ninety-day commercial paper prevailing at the time of such advance at the Federal reserve bank of the district in which the borrowing institution is located, but such rate of interest shall in no case be greater than the average rate receivable by the borrowing institution on its loans and investments made during the six months prior to the date of the advance, except that where the average rate so receivable by the borrowing institution is less than such rate of discount for ninety-day commercial paper the rate of interest on such advance shall be equal to such rate of discount. The Corporation shall retain power to require additional security at any time.

SEC. 9. That the Corporation shall be empowered and authorized, in exceptional cases, to make advances directly to any person, firm, corporation, or association, conducting an established and going business in the United States, whose operations shall be necessary or contributory to the prosecution of the war (but only for the purpose of conducting such business in the United States and only when in the opinion of the board of directors of the Corporation such person, firm, corporation, or association is unable to obtain funds upon reasonable terms through banking channels or from the general public), for periods not exceeding five years from the respective dates of such advances, upon such terms, and subject to such rules and regulations as may be prescribed by the board of directors of the Corporation. In no case shall the aggregate amount of the advances made under this section exceed at any one time an amount equal to twelve and one-half per centum of the sum of (1) the authorized capital stock of the Corporation plus (2) the aggregate amount of bonds of the Corporation authorized to be outstanding at any one time when the capital stock is fully paid in. Every such advance shall be secured by adequate security of such character as shall be prescribed by the board of directors of a value at the time of such advance (as estimated and determined by the board of directors), equal to (except in case of an advance made to a railroad in the possession and control of the President, for the purpose of making additions, betterments, or road extensions to such railroad) at least one hundred and twenty-five per centum of the amount advanced by the Corporation. The Corporation shall retain power to require additional security at any time. The rate of interest charged on any such advance shall not be less than one per centum per annum in excess of the rate of discount for ninety-day commercial paper prevailing at the time of such advance at the Federal reserve bank of the district in which the borrower is located.

SEC. 10. That in no case shall the aggregate amount of the advances made under this title to any one person, firm, corporation, or association exceed at any one time an amount equal to ten per centum of the authorized capital stock of the Corporation, but this section shall not apply in the case of an advance made to a railroad in the possession and control of the President, for the purpose of making additions, betterments, or road extensions to such railroad.

SEC. 11. That the Corporation shall be empowered and authorized to subscribe for, acquire, and own, buy, sell, and deal in bonds and obligations of the United States issued or converted after September twenty-fourth, nineteen hundred and seventeen, to such extent as the board of directors, with the approval of the Secretary of the Treasury, may from time to time determine.

SEC. 12. That the Corporation shall be empowered and authorized to issue and have outstanding at any one time its bonds in an amount aggregating not more than six times its paid-in capital, such bonds to mature not less than one year nor more than five years from the respective dates of issue, and to bear such rate or rates of interest, and may be redeemable before maturity at the option of the Corporation, as may be determined by the board of directors, but such rate or rates of interest shall be subject to the approval of the Secretary of the Treasury. Such bonds shall have a first and paramount floating charge on all the assets of the Corporation, and the Corporation shall not at any time mortgage or pledge any of its assets. Such bonds may be issued at not less than par in payment of any advances authorized by this title, or may be offered for sale publicly or to any individual, firm, corporation, or association, at such price or prices as the board of directors, with the approval of the Secretary of the Treasury, may determine.

Upon such terms not inconsistent herewith as may be determined from time to time by the board of directors, with the approval of the Secretary of the Treasury, at or before the issue thereof, any of such bonds may be issued payable in any foreign

money or foreign moneys, or issued payable at the option of the respective holders thereof either in dollars or in any foreign money or foreign moneys at such fixed rate of exchange as may be stated in any such bonds. For the purpose of determining the amount of bonds issued payable in any foreign money or foreign moneys the dollar equivalent shall be determined by the par of exchange at the date of issue thereof, as estimated by the Director of the Mint and proclaimed by the Secretary of the Treasury in pursuance of the provisions of section twenty-five of the Act entitled "An act to reduce taxation, to provide revenue for the Government, and for other purposes," approved August twenty-seventh, eighteen hundred and ninety-four.

SEC. 13. That the Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal reserve act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by such bonds of the Corporation and to rediscount eligible paper secured by such bonds and indorsed by a member bank. No discount or rediscount under this section shall be granted at a less interest charge than one per centum per annum above the prevailing rates for eligible commercial paper of corresponding maturity.

Any Federal reserve bank may, with the approval of the Federal Reserve Board, use any obligation or paper so acquired for any purpose for which it is authorized to use obligations or paper secured by bonds or notes of the United States not bearing the circulation privilege: *Provided, however,* That whenever Federal reserve notes are issued against the security of such obligations or paper the Federal Reserve Board may make a special interest charge on such notes, which, in the discretion of the Federal Reserve Board, need not be applicable to other Federal reserve notes which may from time to time be issued and outstanding. All provisions of law, not inconsistent herewith, in respect to the acquisition by any Federal reserve bank of obligations or paper secured by such bonds or notes of the United States, and in respect to Federal reserve notes issued against the security of such obligations or paper, shall extend, in so far as applicable, to the acquisition of obligations or paper secured by the bonds of the Corporation and to the Federal reserve notes issued against the security of such obligations or paper.

SEC. 14. That the Corporation shall not exercise any of the powers granted by this title or perform any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the President of the United States to commence business under the provisions of this title.

SEC. 15. That all net earnings of the Corporation not required for its operations shall be accumulated as a reserve fund until such time as the Corporation liquidates under the terms of this title. Such reserve fund shall, upon the direction of the board of directors, with the approval of the Secretary of the Treasury, be invested in bonds and obligations of the United States, issued or converted after September twenty-fourth, nineteen hundred and seventeen, or upon like direction and approval may be deposited in member banks of the Federal Reserve System, or in any of the Federal reserve banks, or be used from time to time, as well as any other funds of the Corporation, in the purchase or redemption of any bonds issued by the Corporation. The Federal reserve banks are hereby authorized to act as depositories for and as fiscal agents of the Corporation in the general performance of the powers conferred by this title. Beginning twelve months after the termination of the war, the date of such termination to be fixed by a proclamation of the President of the United States, the directors of the Corporation shall proceed to liquidate its assets and to wind up its affairs, but the directors of the Corporation, in their discretion, may, from time to time, prior to such date, sell and dispose of any securities or other property acquired by the Corporation. Any balance remaining after the payment of all its debts shall be paid into the Treasury of the United States as miscellaneous receipts, and thereupon the Corporation shall be dissolved.

SEC. 16. That any and all bonds issued by the Corporation shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, corporations, or associations. The interest on an amount of such bonds the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, corporation, or association, shall be exempt from the taxes referred to in clause (b). The Corporation, including its franchise and the capital and reserve or surplus thereof, and the income derived therefrom, shall be exempt from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except that

any real property of the Corporation shall be subject to State, county, or municipal taxes to the same extent, according to its value, as other real property is taxed.

SEC. 17. That the United States shall not be liable for the payment of any bond or other obligation or the interest thereon issued or incurred by the Corporation, nor shall it incur any liability in respect of any act or omission of the Corporation.

SEC. 18. That whoever (1) makes any statement, knowing it to be false, for the purpose of obtaining for himself or for any other person, firm, corporation, or association any advance under this title, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

Whoever willfully overvalues any security by which any such advance is secured, shall be punished by a fine of not more than \$5,000, or by imprisonment for not more than two years, or both.

Whoever (1) falsely makes, forges, or counterfeits any bond, coupon, or paper in imitation of or purporting to be in imitation of a bond or coupon issued by the Corporation; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited bond, coupon, or paper purporting to be issued by the Corporation, knowing the same to be falsely made, forged, or counterfeited; or (3) falsely alters any such bond, coupon, or paper; or (4) passes, utters, or publishes as true any falsely altered or spurious bond, coupon, or paper issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, or willfully misapplies any moneys, funds, or credits, thereof or (2) with intent to defraud the Corporation or any other company, body politic or corporate, or any individual, or to deceive any officer of the Corporation, (a) makes any false entry in any book, report, or statement of the Corporation, or (b) without authority from the directors draws any order or assigns any note, bond, draft, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

The Secretary of the Treasury is hereby authorized to direct and use the Secret Service Division of the Treasury Department to detect, arrest, and deliver into custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

SEC. 19. That the Corporation shall file quarterly reports with the Secretary of the Senate and with the Clerk of the House of Representatives, stating as of the first day of each month of the quarter just ended (1) the total amount of capital paid in, (2) the total amount of bonds issued, (3) the total amount of bonds outstanding, (4) the total amount of advances made under each of sections seven, eight, and nine, (5) a list of the classes and amount of securities taken under each of such sections, (6) the total amount of advances outstanding under each of sections seven, eight, and nine, and (7) such other information as may be hereafter required by either House of Congress.

The Corporation shall make a report to Congress on the first day of each regular session, including a detailed statement of receipts and expenditures.

SEC. 20. Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows:

"SEC. 5202. No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

"First. Notes of circulation.

"Second. Moneys deposited with or collected by the association.

"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

"Fourth. Liabilities to the stockholders of the association or dividends and reserve profits.

"Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

"Sixth. Liabilities incurred under the provisions of the War Finance Corporation Act."

"SEC. 21. (a) That the Corporation shall be empowered and authorized, in order to promote commerce with foreign nations through the extension of credits, to make advances upon such terms, not inconsistent with the provisions of this section, as it may prescribe, for periods not exceeding five years from the respective dates of such advances.

"(1) To any person, firm, corporation, or association engaged in the business in the United States of exporting therefrom domestic products to foreign countries, if such person, firm, corporation, or association is, in the opinion of the board of directors of

the Corporation, unable to obtain funds upon reasonable terms through banking channels. Any such advance shall be made only for the purpose of assisting in the exportation of such products, and shall be limited in amount to not more than the contract price therefor, including insurance and carrying or transportation charges to the foreign point of destination if and to the extent that such insurance and carrying or transportation charges are payable in the United States by such exporter to domestic insurers and carriers. The rate of interest charged on any such advance shall not be less than 1 per centum per annum in excess of the rate of discount for ninety-day commercial paper prevailing at the time of such advance at the Federal Reserve bank of the district in which the borrower is located; and

"(2) To any bank, banker, or trust company in the United States which after this section takes effect makes an advance to any such person, firm, corporation, or association for the purpose of assisting in the exportation of such products. Any such advance shall not exceed the amount remaining unpaid of the advances made by such bank, banker, or trust company to such person, firm, corporation, or association for such purpose.

"(b) The aggregate of the advances made by the Corporation under this section remaining unpaid shall never at any time exceed the sum of \$1,000,000,000.

"(c) Notwithstanding the limitation of section 1 the advances provided for by this section may be made until the expiration of one year after the termination of the war between the United States and the German Government as fixed by proclamation of the President. Any such advance made by the Corporation shall be made upon the promissory note or notes of the borrower, with full and adequate security in each instance by indorsement, guaranty, or otherwise. The Corporation shall retain power to require additional security at any time. The Corporation in its discretion may upon like security extend the time of payment of any such advance through renewals, the substitution of new obligations, or otherwise, but the time for the payment of any such advance shall not be extended beyond five years from the date on which it was originally made."

TITLE II.—CAPITAL ISSUES COMMITTEE.

SEC. 200. That there is hereby created a committee to be known as the "Capital Issues Committee," hereinafter called the Committee, and to be composed of seven members to be appointed by the President of the United States, by and with the advice and consent of the Senate. At least three of the members shall be members of the Federal Reserve Board.

No member, officer, attorney, agent, or employee of the Committee shall in any manner, directly or indirectly, participate in the determination of any question affecting his personal interests, or the interest of any corporation, partnership, or association in which he is directly or indirectly interested. Before entering upon his duties, each member and officer shall take an oath faithfully to discharge the duties of his office. Nothing contained in this or any other act shall be construed to prevent the appointment as a member of the Committee, of any officer or employee under the United States or of a director of a Federal reserve bank.

The terms during which the several members of the Committee shall respectively hold office shall be determined by the President of the United States, and the compensation of the several members of the Committee who are not members of the Federal Reserve Board shall be \$7,500 per annum, payable monthly, but if any such member receives any other compensation from any office or employment under the United States the amount so received shall be deducted from such salary, and if such other compensation is \$7,500 or more, such member shall receive no salary as a member of the Committee. Any member shall be subject to removal by the President of the United States. The President shall designate one of the members as chairman, but any subsequent vacancy in the chairmanship shall be filled by the Committee. Four members of the Committee shall constitute a quorum for the transaction of business.

SEC. 201. That the Committee may employ and fix the compensation of such officers, attorneys, agents, and other employees as may be deemed necessary to conduct its business, who shall be appointed without regard to the provisions of the act entitled "An act to regulate and improve the civil service of the United States," approved January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and the amendments thereto or any rules or regulations made in pursuance thereof. No such officer, attorney, agent, or employee shall receive more compensation than persons performing services of like or similar character under the Federal Reserve Board.

SEC. 202. That all the expenses of the Committee, including all necessary expenses for transportation incurred by the members or by its officers, attorneys, agents, or employees under its orders in making an investigation or upon official business in any other places than at their respective headquarters, shall be allowed and paid on the presentation of itemized vouchers therefor approved by the chairman.

The Committee may rent suitable offices for its use, and purchase such furniture, equipment, and supplies as may be necessary, but shall not expend more than \$10,000 annually for offices in the District of Columbia.

The principal office of the Committee shall be in the District of Columbia, but it may meet and exercise all its powers at any other place. The Committee may, by one or more of its members, or by such agents as it may designate, prosecute any inquiry necessary to its duties in any part of the United States.

SEC. 203. That the Committee may, under rules and regulations to be prescribed by it from time to time, investigate, pass upon, and determine whether it is compatible with the national interest that there should be sold or offered for sale or for subscription any issue, or any part of any issue, of securities hereafter issued by any person, firm, corporation, or association, the total or aggregate par or face value of which issue and any other securities issued by the same person, firm, corporation, or association since the passage of this act is in excess of \$100,000. Shares of stock of any corporation or association without nominal or par value shall for the purpose of this section be deemed to be of the par value of \$100 each. Any securities which upon the date of the passage of this act are in the possession or control of the corporation, association, or obligor issuing the same shall be deemed to have been issued after the passage of this act within the meaning hereof.

Nothing in this title shall be construed to authorize such Committee to pass upon (1) any borrowing by any person, firm, corporation, or association in the ordinary course of business as distinguished from borrowing for capital purposes, (2) the renewing or refunding of indebtedness existing at the time of the passage of this act, (3) the resale of any securities the sale or offering of which the Committee has determined to be compatible with the national interest, (4) any securities issued by any railroad corporation the property of which may be in the possession and control of the President of the United States, or (5) any bonds issued by the War Finance Corporation.

Nothing done or omitted by the Committee hereunder shall be construed as carrying the approval of the Committee or of the United States of the legality, validity, worth, or security of any securities.

SEC. 204. That there is hereby appropriated out of any money in the Treasury not otherwise appropriated for the remainder of the fiscal year ending June thirtieth, nineteen hundred and eighteen, and the fiscal year ending June thirtieth, nineteen hundred and nineteen, the sum of \$200,000 for the purpose of defraying the expenses of the establishment and maintenance of the Committee, including the payment of the salaries and rents herein authorized.

SEC. 205. That the Committee shall make a report to Congress on the first day of each regular session, including a detailed statement of receipts and expenditures, and also including the names of all officers and employees and the salary paid to each.

SEC. 206. That this title shall continue in effect until, but not after, the expiration of six months after the termination of the war, the date of such termination to be determined by a proclamation of the President of the United States, but the President may at any time by proclamation declare that this title is no longer necessary, and thereupon it shall cease to be in effect.

TITLE III.—MISCELLANEOUS.

SEC. 300. That whoever willfully violates any of the provisions of this Act, except where a different penalty is provided in this Act, shall, upon conviction in any court of the United States of competent jurisdiction, be fined not more than \$10,000 or imprisoned for not more than one year, or both; and whoever knowingly participates in any such violation, except where a different penalty is provided in this Act, shall be punished by a like fine or imprisonment, or both.

SEC. 301. That no stamp tax shall be required or imposed upon a promissory note secured by the pledge of bonds or obligations of the United States issued after April twenty-fourth, nineteen hundred and seventeen, or secured by the pledge of a promissory note which itself is secured by the pledge of such bonds or obligation: *Provided*, That in either case the par value of such bonds or obligations shall equal the amount of such note.

SEC. 302. That if any clause, sentence, paragraph, or part of this Act shall, for any reason, be adjudged by any court of competent jurisdiction to be invalid, or, in case

any court of competent jurisdiction shall adjudge to be invalid any provisions hereof in respect of any class or classes of securities, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, part, or subject matter of this Act directly involved in the controversy in which such judgment shall have been rendered.

SEC. 303. That the term "securities," as used in this Act, includes stocks, shares of stock, bonds, debentures, notes, certificates of indebtedness, and other obligations.

SEC. 304. That the right to amend, alter, or repeal this Act is hereby expressly reserved.

SEC. 305. That the short title of this Act shall be the "War Finance Corporation Act."

SEC. 306. That all provisions of any Act or Acts inconsistent with the provisions of this Act are hereby repealed.

Approved, April 5, 1918.

S. J. Res. 212, Sixty-sixth Congress, Third Session.

JOINT RESOLUTION Directing the War Finance Corporation and the Federal Reserve Board to take certain action for the relief of the present depression in the agricultural sections of the country.

Whereas there exists in the agricultural sections of the country unprecedented and unparalleled distress on account of the inability of the farmers to dispose of the corn, wheat, cotton, live stock, and other commodities now in marketable condition at prices that will pay the cost of production; and

Whereas the people of Europe are in dire need of the agricultural products now in possession of the farmers of this country, but are unable to purchase on account of existing financial conditions; and

Whereas, under an act of Congress, there was established the War Finance Corporation for the purpose of financing the exportation of American products to foreign markets; and

Whereas the activities of the War Finance Corporation were suspended in May, 1920, by an order of the Secretary of the Treasury; and

Whereas the banks of the country are unable to extend credit to the farmer in order that the farm products may be held until they can be sold in a fair and reasonable market: Therefore be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury and the members of the War Finance Corporation are hereby directed to revive the activities of the War Finance Corporation, and that said corporation be at once rehabilitated with the view of assisting in the financing of the exportation of agricultural products to foreign markets.

SEC. 2. That the Federal Reserve Board is hereby directed to take such action as may be necessary to permit the member banks of the Federal reserve system, in accordance with law and consistent with sound banking, to grant liberal extensions of credit to the farmers of the country upon the security of the agricultural products now held by them, by permitting the rediscounting of such notes of extension at the lowest possible rate of interest.

REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION

JOINT HEARINGS

BEFORE THE

**COMMITTEES ON AGRICULTURE AND FORESTRY
CONGRESS OF THE UNITED STATES**

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

S. J. RES. 212

**A RESOLUTION DIRECTING THE WAR FINANCE CORPORATION
AND THE FEDERAL RESERVE BOARD TO TAKE CERTAIN
ACTION FOR THE RELIEF OF THE PRESENT DEPRES-
SION IN THE AGRICULTURAL SECTIONS
OF THE COUNTRY**

Printed for the use of the Committee on Agriculture and Forestry

PART 2



**WASHINGTON
GOVERNMENT PRINTING OFFICE
1920**

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UNITED STATES SENATE.

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REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

THURSDAY, DECEMBER 9, 1920.

CONGRESS OF THE UNITED STATES,
COMMITTEES ON AGRICULTURE,
Washington, D. C.

The committee was called to order at 2 p. m. by Senator Asle J. Gronna, chairman of the Senate Committee on Agriculture and Forestry.

Present: Senators Gronna (chairman), Page, Kenyon, McNary, Capper, Gore, Smith of South Carolina, and Kendrick.

Senator SWANSON. Mr. Chairman, when the committee adjourned yesterday Mr. Smith, representative of the tobacco growers of Virginia and North Carolina, had not been able to get here on account of a delayed train, and we arranged for him to be here at 10.30 this morning, but through some misunderstanding the hearing was continued until this afternoon. Mr. Smith is now here. He is a member of the Virginia General Assembly and is also a representative of the Virginia-North Carolina Association of Tobacco Growers, and would like to be heard.

The CHAIRMAN. We will be very glad to hear Mr. Smith.

STATEMENT BY MR. CHARLES F. SMITH, REPRESENTATIVE OF THE VIRGINIA-NORTH CAROLINA TOBACCO GROWERS' ASSOCIATION.

Senator PAGE. Are you president of this association?

Mr. SMITH. No, sir; I am not president of the association. I was just selected by a conference of the executive committee to appear before this committee. I received a telegram from the secretary last week, last Saturday, asking me to appear here.

The CHAIRMAN. You may proceed in your own way.

Mr. SMITH. Mr. Chairman and gentlemen of the committee, the situation with the tobacco growers in our section is a very serious one. In the production of tobacco we have to have a great deal of commercial fertilizer, and, as you all know, tobacco fertilizer, or fertilizer of any kind, was extremely high, and we have to have a certain kind of building, and building has been extremely high. Labor has been extremely high. And this crop of tobacco has been produced, I should say, on the highest basis of any crop of tobacco within my knowledge.

Our people have put forth heroic efforts to produce a crop. We were told that there was imminent danger of the country going hun-

gry. We have been urged by the demonstration agents to diversify and to feed more cattle, grow more hogs, and produce more food-stuffs, all of which our people have made an effort to do. And to-day we are confronted with this proposition, that if we market our tobacco we can not meet our obligations. If we hold our tobacco and market the live stock, that does not help the situation, because they are all below the cost of production, away below the cost of production.

And the situation in our country to-day—I live there within a few miles of Camp Lee—and you know of the horrible state of affairs we found when our boys came in from the country to enlist in the service of the country who could not read or write. And we have tried to improve our educational facilities. We have better schools now. We have tried to improve our roads. And this program which we have mapped out will come to naught unless we can get some aid and get some remuneration for the crops which we have produced. It will be utterly impossible—I know boys to-day who have been in school, boys who have been taken out of school on account of this situation, in order to do something, in order to remedy and to help the situation as it is down there to-day.

The CHAIRMAN. Do you speak with regard to any particular crop or crops in general?

Mr. SMITH. I am speaking particularly with regard to tobacco, but the situation is the same with regard to the other crops. The same thing can be said with regard to all of the crops. The grain growers are suffering. We all know that there are no markets and that the prices are tremendously low with regard to all crops. But—I am representing particularly the Tobacco Growers' Association—but we find the whole business so closely allied that it will be useless to attempt to help one without helping the others.

Personally, Mr. Chairman and gentlemen of the committee, I believe the business of the entire country is so closely allied that if the agriculture falls the whole structure falls, and consequently in giving relief to agriculture you are giving relief to the whole country.

I want to impress upon you gentlemen that these crops that are being held now are held by loyal Americans. Some of them have been produced by the women and children who have taken the place of the men who have been called into the camps and the men who have gone into the various Government plants to make the manufactured stuff for the use of the Government. Some of it belongs to the widows who have given their sons to die on Flanders' fields, and I want to appeal to you with all of the emphasis that is within me to pass this resolution, possibly with some changes as was suggested here yesterday afternoon, and give some relief to what I consider the most important branch of the American people, and that is those who till the soil, because I regard that as the foundation of all of our wealth; the foundation of all of our prosperity.

I thank you, gentlemen.

The CHAIRMAN. You have reference to the War Finance Corporation?

Mr. SMITH. I have reference to the War Finance Corporation, yes, sir; as we were discussing on yesterday afternoon.

I thank you, gentlemen, for this privilege of appearing before you.

The CHAIRMAN. The committee is very much obliged to you, Mr. Smith.

Now, Senator Walsh, you have some witnesses who desire to be heard?

Senator WALSH of Montana. Yes, sir.

The CHAIRMAN. The committee will be glad to hear from any of your friends.

Senator WALSH of Montana. Before the witnesses testify, Mr. Chairman, I desire to put in evidence a letter which came in my mail yesterday morning that briefly reviews the situation and discloses the crux of the situation.

It is from Manhattan, Mont., under date of December 3, and reads as follows:

MONTANA PUREBRED SHEEP ASSOCIATION,
Manhattan, Mont., December 3, 1920.

Senator T. J. WALSH,
Washington, D. C.

DEAR SENATOR: No doubt your attention has been called to the gravity of the wool situation. As secretary of our association I am writing with the authority of our executive committee to review and enumerate to you the handicaps and discouragements under which the woolmen of Montana are at present working. It is almost needless to mention the past severe winter, which entailed expense to the sheepmen on account of extra quantity of feed necessary, and the unusual prices which prevailed. The conditions of the winter reduced the wool clip and the lamb crop and also caused great losses in the breeding flocks. Until May 15 the situation even then looked as though it might be sweated out; about that time, however, the wool market seemed to go out of existence.

At present the fleece masters who drew 25 per cent per pound on their fleeces are asked to put up an additional margin of 5 to 10 cents or have the alternative of being sold out. I am quoting from a letter from Silberman Bros., of Chicago, received by our Gallatin County Sheep Association, which will illustrate the point I am making. Over one-half the sheepmen of Montana are broke, although many of them do not yet realize it. Our local banks, as you are probably aware, could not give credit in most cases to the extent of allowing this margin to be sent in to the various brokers. The result will be that huge quantities of this country's wool will be forced upon the market at one time. This will cause a further aggravation of already terrible conditions.

It may be news to you, in addition to these facts, to know that at the meeting of the northwestern woolmen's executive committee, held in Salt Lake November 9, the fact was shown that 60 per cent of the wool manufactured since the 1920 clip was put on the market is foreign wool. The warehouses all over the country, in Boston, Chicago, Philadelphia, are loaded to the guards with 1920 wool. It will be but a few months before the 1921 clip is ready for the market, and with this staggering amount of the 1920 clip already on hand you can imagine what an additional bear influence this will be. Last winter it was conditions of nature which forced the Montana sheepman to the last ditch; added to this, now comes these financial and market troubles. This combination of adverse conditions will force so many sheepmen out of business that the next year or two will develop a decrease of wool production to such extent that the pendulum will swing the other way and the consumer will eventually suffer with the sheepman. Some immediate drastic legislation should be enacted at this Congress to bring relief to the sheep industry of our State and country.

This letter is not a selfish appeal. It is simply one asking for survival.

Very truly, yours,

MONTANA PUREBRED SHEEP ASSOCIATION.
G. M. LEWIS, *Secretary.*

I also desire to read an extract from a letter from Silberman Bros., of Chicago, to which Mr. Lewis refers:

The market has declined so violently that the 25 per cent limit approached the danger point, and we doubt very much if more than this price can be

realized at the present time. If your association would prefer speculating on the wools instead of closing out on the present market you could send us 5 cents per pound margin and we would hold same until after the 1st of January. If you wish to do this kindly send us the money within 10 days of the above date.

Senator McNARY. May I ask, Senator Walsh, whether there is any specific remedy mentioned?

Senator WALSH of Montana. No, sir.

Senator McNARY. I have received a number of communications from my State and neighboring States asking for an embargo.

Senator WALSH of Montana. Naturally the mind of the wool-growers turns immediately upon the discovery of a situation of this character upon something in the nature of an embargo, and it will be interesting equally to ascertain and that is one of the purposes I had in mind in asking for this investigation, in order to ascertain the importation of foreign wools coming into competition with our wools and whether or not that is responsible for the present depressing situation.

Another thing I should like to have inquired into is to what extent such wools, thus coming upon the market, or any other wools coming upon the market, some there by reason of accumulations made during the war. Because if the market is merely suffering now from the dumping on it of wool accumulated either in this country or produced during the war period it would occur to me that it would be equally appropriate to use war legislation to correct that evil.

I have asked a representative of the Tariff Commission to appear before you and give you the benefit of some extensive investigations which have already been made by the tariff board. In fact, I think they have a report now in the hands of the printer. The chairman has kindly offered to put at your disposal whatever information they get relative to the matter. Also, Mr. Haggbarth, of the State of Idaho, president of the woolgrowers' association, and Dr. McClure, of Salt Lake, has been asked to be here; but Mr. Haggbarth is appearing before the House Committee on Ways and Means, and with your permission I will ask Dr. McClure to make a statement.

Senator KENDRICK. I want to ask you a question about an embargo. Do you not consider that any effort to determine what effect the importation of wool would have and what relief would be felt from the embargo necessarily would include the possible effects on the market of the embargo against wools that are coming over now; that is, that the question of strengthening the market will restore confidence to the value of the wools that are here?

Senator WALSH of Montana. That would, of course, be pertinent.

Senator KENDRICK. We would have to take into account the possibility of what the future may mean with regard to importation as well as what has already occurred.

Senator WALSH of Montana. Yes, sir. If we are to assume that the accumulations are the accumulations of the war period and that that is what is depressing the price, by reason of that fact it may reasonably be supposed, of course, that that is a very proper matter to be taken into consideration.

The CHAIRMAN. The committee has been told, Senator Walsh, that there are countries in Europe that would take the coarse wools if they only had credit; in fact, they have orders for those wools.

Senator WALSH of Montana. A gentleman called on me the other day—a Mr. Brauer has recently told me that; but I was not able to get from him very definite information concerning the character of wools that would be demanded by the German mills. In a public statement made by him I notice he refers to the wools as coarse wools. Well, the expression "coarse wools" does not convey a very definite idea to those who are familiar with the wool business, because our understanding of coarse wools ordinarily is carpet wools, and those do not come into competition to any great extent with the American producers; but I presume that he probably does desire to purchase American wool, as he is interested in wool that is produced in this country.

I would be glad for you to hear Dr. McClure.

The CHAIRMAN. We will be very glad to hear Dr. McClure.

STATEMENT BY DR. S. W. McCLURE, OF THE NATIONAL WOOL GROWERS' ASSOCIATION.

Senator WALSH of Montana. In the first place, will you please state your official position, if any, which you hold in the National Wool Growers' Association?

Dr. McCLURE. I am a member of the executive committee of the Wool Growers' Association and for 10 years was secretary of that organization.

Senator WALSH of Montana. Where are your headquarters?

Dr. McCLURE. At the present time at Nampa, Idaho; and I am manager of the Columbia Basin Wool Warehouse Co., which is one of the greatest cooperative marketing concerns in the wool industry, with headquarters at Portland, Oreg., and I represent here the National Wool Growers' Association. I am also a member of the American Federation of Farm Bureau, wool market committee, and represent them.

Mr. Hagenbarth wanted to be here to talk with you, but he is appearing before the Ways and Means Committee of the House. They had a hearing over there this morning and did not get through and he is going on again at 2.30, so he asked me to be here and present our case.

As you gentlemen know, during the war the Federal Government, through its experiment stations and the Food Administration and the Department of Agriculture, used every possible endeavor to increase the production of woolgrowing in the United States. Of course, it was apparent to them that there were immediate needs for an increase in the supply of wool if the soldiers were to be properly clothed. They thought that it was probable that we might not be able to secure an adequate supply from foreign countries. I was one of the people who went out to increase the production of wool. I think that many people went into the woolgrowing industry as a result of the Government's campaign, especially in the farming States. Many of those people, however, if they took my advice and increased the production of sheep and wool, are now in great financial trouble.

I traveled over a great deal of the country, urging them to increase the production of wool and telling them of the profits that might be made by raising sheep.

Senator WALSH of Montana. Where did you go, Doctor?

Mr. McCLURE. I went all over our western country. I spoke in many sections of the country. Mr. Haggendarth spoke in the Middle West and went up into the cut-over lands of Michigan and Wisconsin. And I presume that we got some results and that some people went into the business as a result of our efforts. You gentlemen well know that in 1918 and in 1919 we had the most serious drought in the western country that was ever known there. Last winter, following this drought, we had the most severe winter I have ever known in the West, and I have been there for 20 years. In an ordinary year we will put our sheep in the feed lots in December or January, and they will come out usually in April or the latter part of March. They went into the feed lots in November last year and we continued to feed those sheep away up until the 1st of May. Sheepmen had already borrowed all of the money they could get from the banks, and, of course, in that borrowing we had made provision to finance our feeding, the feeding of our sheep, figuring, of course, on an average winter, estimating that probably the feed charges would be somewhere around \$4 a head.

As the winter was unusually long, the revenue which we had obtained for the winter feeding was exhausted and the banks and loan companies who were backing the sheepmen—and this applies to the cattlemen as well—were forced to come through and put up additional money. Of course, the stockmen were asked to put up additional security, which they did wherever it was possible, but in most places they had no additional security.

We went through the winter borrowing money everywhere and anywhere we could get it, until the feed bill at the end of the season in many cases was as high as \$12 per sheep. In fact, the feed bill was even as much as the sheep were worth in many cases. Hay that we had usually bought in the State of Idaho—and I think the same was true with regard to Montana—at some \$4 to \$7 a ton went up until in the State of Montana they were paying \$35 and \$40 a ton for hay to winter their flocks. In the State of Idaho, where we raise a great deal of alfalfa, we had to pay anywhere from \$15 to \$20 for that hay.

Senator McNARY. That is in the field?

Dr. McCLURE. In the haystack; in the case of Montana baled hay on board the cars; and in the case of Montana they would buy that hay and they had to haul it as much as 50 and 60 miles to where the sheep were, and the expenses of transportation in addition to the price which they had to pay for the hay was very high.

We usually pay \$1.50 per hundred for our corn, and we had to pay \$3 to \$4 for the corn. I paid \$3.02 for my own corn. We feed in the West a very large quantity of cottonseed cake, which we import from Texas and Oklahoma. We have ordinarily been buying that cake at from \$40, \$42, and \$45 per ton. The cake cost us last year, laid down at our railroad stations, from \$80 to \$90; and, in addition to that, we had a hauling charge which in some cases amounted to half of the cost of the cake. After we got through the winter many of the banks and many of the sheepmen were about bankrupt, but, of course, we figured on a good lamb crop.

The spring should have broken and we should have had green grass along in March, but it did not open up until late in May. The pre-

vious fall, when we bred our ewes, had been so unusually dry that fully 25 and maybe 30 per cent did not get with lamb at all, so when it came to lambing time we averaged not to exceed 50 per cent of a lamb crop. Well, after we lost out on the lamb crop, the sheepmen figured that we would be able to pay some of these expenses with the wool crop. Well, along on the 19th day of May the wool market collapsed. That was before we had any opportunity to sell our wool, and in fact in Montana there had not been any shorn on that day. Wool values, which had been high, simply collapsed and we were unable to sell our wool. The result was that the banks and the loan companies who had been so good to us and whom we had been promising to pay when the lamb crop came, we were unable to pay, and then we had promised to pay them when the wool crop came, and then we were unable to pay them. In my judgment the woolgrowers of the United States still own 95 per cent of the clip for this year. We have sold probably 5 per cent of our wool. We have not been able to pay either the banks or the loan companies.

With the collapse of the wool market there came a collapse of the sheep market. Sheep values that had ranged from \$16 to \$18 and \$20 a head during the war just simply disappeared. The sheep market "evaporated." We were unable to sell our sheep at any price and that condition continues until to-day. I have not been able to sell any sheep since July. I can not sell them at any price. Now, ewes that brought \$20 a year ago would not sell to-day for \$5 a head, because there is no money to buy with.

Senator KENDRICK. Dr. McClure, I want to ask you if you have any information or if you have heard of a shipment of 2,000 head of sheep that was recently made from Rock Spring, Wyo., to Kansas City and sold at a net price of 33 cents a head?

Dr. McCLURE. Yes, sir; that shipment was made from the Rife estate, of Rock Springs. They recently shipped a trainload of sheep to market and sold them at a net price of 34 cents a head.

Senator WALSH of Montana. That must have been an extraordinary occurrence.

Dr. McCLURE. Well, it was extraordinary, but those ewes were thin. They were not fed ewes and there is just no market for them.

Senator WALSH of Montana. You usually ship lambs and matured wethers at what season?

Dr. McCLURE. Well, we ship them in the fall.

Senator WALSH of Montana. Well, there have not been any shipments?

Dr. McCLURE. Oh, yes; we have shipped everything we had, and some of our ewes, but I am talking about sales, particularly of breeding sheep.

Senator WALSH of Montana. Well, will you tell us what they brought?

Dr. McCLURE. Our lambs were bringing from 16 to 20 cents a pound a year ago. Now, we only had a half a lamb crop this year, and we felt that we were going to get a lot of money out of our lambs, as they were scarce, but we are only able to get from 10 to 14 cents a pound for them. I understand that feed lambs on the Chicago market are running at 11 to 13 cents. Those are fed lambs from Iowa, Indiana, and Illinois, which those farmers bought from

us and fed. They have taken them home and fed them corn and now have nothing except the increase in weight as a gross profit.

The company with which I am now connected—this is a cooperative wool-marketing concern, which loans money to the sheepmen. I trust that the newspaper men present, Mr. Chairman, if I might ask, will not report what I am saying, because we are entirely in the hands of the banks, and I do not want the impression to get abroad that this paper is not good, because if we are called on to pay now we can not meet it. The company with which I am connected has about \$7,000,000 loaned on sheep. We make a loan, and make them largely through the banks, and when the wool is grown and the grower shears his wool, we take the wool and sell it on a commission. Our company has been unable to liquidate these loans. It is almost impossible to liquidate any of them without bankrupting these men and ourselves and the banks, because in addition to the loan which we carry, the banks in many cases have a second mortgage on the sheep, and in many cases they have no security at all, and they have been putting up carrying charges in addition to such money as we have advanced. It is very naturally a critical condition.

I do not know how much longer we can go on. Mr. Higgenbarth was in Chicago the other day and organized a live-stock finance corporation by which the banks of New York, Chicago, and Boston are putting up \$22,000,000, which will help some of these people; but it is really not a drop in the bucket, because the amount needed aggregates \$100,000,000.

We have been unable to get relief from the Federal Reserve Board. We thought we ought to have some from them, and Gov. Harding says that he is doing all that he can for us, and he probably is. Some new source of money must be found if we are going to carry these breeders and producers in the West.

Senator PAGE. And how will you expect anybody to lend you money when your security is not good?

Dr. McCLURE. This is the unfortunate position, Senator, that the security has not been liquid for a long while, and the fellows who are carrying us are continuing to carry us with the hope that something can be done which will make those securities good.

Senator McNARY. Until you have been reimbursed by finding a market for the 95 per cent of the wool which has been clipped, which is now in the possession of the grower?

Dr. McCLURE. Exactly; and for these lambs.

Now, the sheep industry and the cattle industry—I presume that everyone that comes before you will tell you that his case is the worst. Now, we believe that ours is the worst. There is one thing that must be considered with regard to the wool growers and the cattle industry and those who are engaged in that business, and we have got to do something for them. The farmer who is being injured by low prices of wheat and corn is in a deplorable condition, but he will have his farm left and can grow another crop.

With the live-stock industry it is different. The farmer still has his farm left, but with the sheep grower or the cattle grower every time we send a ewe or cow to market we have destroyed the farm, and there is not any place where we can get a new one. Every time a ewe goes down to market her lamb-producing capacity has ended and the same thing is true with regard to a cow, and of course we are

destroying something that we can not get back. We can not get them back as there is no storehouse anywhere in the world from which the country can obtain a new supply of breeding animals, whether it be the farmer or the sheepman or the cattleman that wants them.

Our situation, so far as lambs are concerned particularly, is accounted for by the tremendous importation of lambs into the United States. During the war there was a lot of propaganda to produce more, not only here but all over the world. We were told that the world supply of these commodities was very low when the truth is that they were away above normal. That applied to meat, and it applied, as I know, to wool. The consumption of these things during the war was decidedly abnormal, so that when the war closed we found the world's storehouses for both met and wool filled to the limit. In New Zealand during the war there went into cold storage a surplus of lambs amounting to 5,200,000 head. Those lambs, of course, were being used during the war, but they did not have shipping facilities to handle them. And the same thing is true with regard to wool. All of those things accumulated, and they accumulated here, and they accumulated in Africa, and they accumulated in South America.

The lamb importations into the United States for the first 10 months of this year were—and these figures are from the Bureau of Markets—amounted to 2,663,045 carcasses of lamb.

Senator WALSH of Montana. How does that compare with the importations for the previous 12 months?

Dr. McCLURE. It is 1,045 per cent greater.

In addition to the importations which are now here, there are four vessels afloat from New Zealand carrying probably 300,000 additional carcasses of lamb, so that the close of this calendar year will find our imports of lamb into this country from Australia and New Zealand and South America totaling 3,000,000 carcasses. That is equal to one-third of the total production of lambs in this country, and they are only just beginning, so they tell us.

Senator KENYON. You feel that a lot of this importation is coming here by reason of the fact that the European countries are blocked and can not take this stuff which they need?

Dr. McCLURE. I do not know that, sir, but our dollar is worth a hundred cents, and they can unload over here and get more money for them than they can anywhere else in the world.

On September 1 we had in storage in the United States 12,500,000 pounds of lamb; on October 1, 25,300,000 pounds; and on November 1, 48,670,000 pounds. Every month the amount in storage has increased by 100 per cent.

Senator McNARY. Can you translate that into carcasses so that we can have a comparison?

Dr. McCLURE. Yes, Senator, these New Zealand carcasses weigh 34 pounds. Our importation is about 100,000,000 pounds. The total lamb produced in the United States is about 300,000,000.

Lamb is a rather peculiar commodity, for which the market is limited. All of the people of our country do not consume lamb, but we are consuming in this country anywhere from 9,000,000 to 10,000,000 carcasses a year, and the imports since April are equal to one-third of our total production of lamb.

Senator McNARY. Let me ask you one question for my own information. In speaking of lamb, lamb carcasses, that has no reference to mutton?

Dr. McClure. Yes; mutton is included, but that is a very small quantity. I might tell you what happened in the National Wool Growers' Association. There are great many Americans who do not eat lamb, but our association waged a campaign here to increase the consumption of lamb, so we assessed the sheepmen of the West, I think it was a half a cent a head for each lamb raised during the years 1919 and 1920, and we collected quite a sum of money and obtained the support of the agricultural colleges and employed experts to go around over the country urging an increase in the consumption of lamb. We spent a good deal of money, thousands of dollars of the sheepmen's money. Of course, we were not urging them to eat New Zealand lambs, and were not spending that money in the interest of the New Zealand lambs, but they are getting the benefit of it.

Senator KENYON. About what would an ordinary lamb bring on the market to-day, from which you get lamb chops that are not much bigger than a toothpick?

Dr. McClure. Lambs to-day, fat lambs, are selling at about 11 cents a pound, and they weigh about 70 pounds. That would be about \$7.70.

Senator KENYON. Do you know what we pay for one lamb chop such as I describe?

Dr. McClure. Well, it depends on where you get it. Down here at the Willard you would have to pay enough to buy a whole sheep.

Senator PAGE. Isn't it true that at hotels like the Franklin Square and those that come just below the Willard that you have to pay 90 cents for two lamb chops?

Dr. McClure. I think that is true.

Senator KENYON. Ninety cents for two lamb chops?

Senator McNARY. I think you would have to pay 90 cents for one lamb chop at the Willard.

Senator PAGE. How can they get the people to buy the lamb chops on that basis—how can they get the money to pay for them?

Dr. McClure. I do not know, Senator.

Senator WALSH of Montana. Would it not be fair to take a restaurant like Childs. Of course, where men want the extra service that they will get at a place such as the Willard—we ought not to be legislating for their interests particularly—but take popular-priced restaurants.

Dr. McClure. I agree with you. The sheepmen are eating at Childs's restaurants these days. That is where our delegation is eating now.

Senator McNARY. Can you answer that question?

Dr. McClure. I do not know what Childs asks for a lamb chop.

Senator KENYON. Some of the newspaper men tell me that you have to pay 60 cents for two. Of course, they do not eat at Childs, but some of their friends do.

Senator PAGE. I am interested in what you say in regard to the advances that were being made.

Dr. McClure. Sir?

Senator PAGE. About the advances that are being made on wool. You have advances of 25 cents per pound?

Dr. McCLURE. Yes, sir; up to 40 cents a pound. We have advances as high as 40 cents a pound on wool.

Senator PAGE. Now, I am a wool puller and I have the wool to sell. I sell it after it is pulled off the pelt, wool that was worth \$1.08 a pound two years ago I can get only an offer of 20 cents a pound for it now.

Dr. McCLURE. Exactly.

Senator PAGE. And 25 cents a pound is being offered. Isn't that away above what is being realized and what you can get for the wool if they were forced to make a sale?

Dr. McCLURE. You see, Senator, we were advanced 25 cents a pound and 40 cents a pound on wool at the time when wool was worth 50 and 60 cents a pound. No advances are being made now. I would like to read a letter which very accurately describes the conditions of most wool companies. Most of the Boston wool houses are asking the woolgrowers to return 5 to 10 cents a pound of the advances that were made to them this summer. Of course, they can't do it. There is not any place in the world where you can get it. Out West, on any proposition connected with live stock, you can not get \$1 under any consideration, even if a man's clip of wool depended upon it. You can not go to the banks or to the loan companies and get 5 cents a pound.

Senator PAGE. That does not seem to be quite correct, because I am from day to day offered 20 cents a pound and I can get money if I am willing to take the price that the men are ready to advance on the wool. If I am willing to take the price, which is to-day about 20 cents a pound, I can secure the money for it.

Dr. McCLURE. I have so far been unable to sell either my 1919 or 1920 clips.

Senator PAGE. That is your wool in the grease, as it comes from the back of the sheep?

Dr. McCLURE. That was last year's wool. You understand, of course, I have had that 35-cents advance for a year and a half, and I have got 3 cents freight added to it down here, so that wool to-day stands me about 40 cents a pound, and then when I get down to this year I am not able to sell this year's wool clip. I expected that I was going to have to pay back some on last year's wool, so I did not get any advance on this year's wool. Now, I have last year's wool and this year's wool on hand.

Senator KENYON. What about the supply in the country?

Dr. McCLURE. It is enormous.

Senator McNARY. And the majority of the 1919 wool is still in the warehouses.

Dr. McCLURE. I will tell you what I will do with the 1920 wool crop—I will donate it absolutely free, my whole clip, to anybody who will pay back part of the advance I got on my 1919 wool which I will have to refund. My 1920 wool crop will not bring enough money in the market to-day to pay back my loss on the 1919 wool, so I am getting poorer every day these supplies continue to accumulate.

Now, what the wool growers propose—

Senator PAGE. I would like to pursue that a little further. You say you lack money. Do you expect the Federal reserve banks, the Federal reserve system, to advance you 30, 35, or 40 cents a pound on wool that will only sell in the market for 20 cents a pound?

Dr. McCLURE. Here is what we expected from the Federal reserve system—the peculiar thing about this wool situation is that the market collapsed, wool values collapsed on the very day when the Federal reserve banks started their deflation of credits. Our market collapsed on the 20th day of May, and on the 19th day of May we were told that the Federal Reserve Board sent out orders to restrict credit, and the wool market was put on the black list immediately. I had offers in the West on May 12 at 60 cents a pound for a clip of wool out there, and on May 20 I could not get 10 cents.

Senator GORE. Did you sell?

Dr. McCLURE. No.

Senator GORE. Why didn't you?

Dr. McCLURE. Because it was worth 64 cents.

Senator GORE. Was the market 60 cents?

Dr. McCLURE. The market on that wool was 64. I will tell you frankly that I did not sell because I am interested in furthering a cooperative system of marketing wool. Now, I did not want to sell to the people who came around speculating, because that was contrary to the very system for which we are working.

Senator GORE. Would you object to a law regulating the price at 40 cents?

Dr. McCLURE. Not provided the law reduced the price of a lot of things I bought. You remember at 64 cents that the woolgrower was not making anything. In my judgment, the woolgrowers have lost money since 1917. I do not think they made anything in 1918. I know they did not in 1919, and in 1920 they are growing broke. There has been no profit in wool since 1917.

Senator GORE. Did they make anything in 1917?

Dr. McCLURE. Yes, sir.

Senator GORE. Did you make anything in 1916?

Dr. McCLURE. We did fairly well in 1916.

Senator GORE. How about 1915?

Dr. McCLURE. We did fairly well in 1915; but, Senator, here is what happened to us—I have probably already taken too much of your time.

The CHAIRMAN. Go ahead; we are glad to hear you.

Dr. McCLURE. Along in April, 1918, Mr. Baruch, then chairman of the War Industries Board, wired me, as secretary of the National Wool Growers' Association, that the Government need for wool had very materially increased, for me to come down and to bring a delegation of woolgrowers with me prepared to fix the prices of the American wool clip of 1918. We came down here and we were supposed to fix the price of our wool. If we did make any money in 1916 or 1917 we had to pay it out in income taxes. We only made about 8 per cent and we had really not accumulated anything. Well, when we got down here we told the War Industries Board that we did not want the price of wool fixed, but the board put it up to us on these grounds, that it had to be done in order to clothe the soldiers over there. Now, what could you do? You could not oppose it, so the only thing we discussed then was what price to be fixed. Now, every grower, we felt, was entitled to the current price of April 15, 1918, but the board started to figure around 36 cents a pound. Suppose they had taken our wool at 36 cents.

Senator GORE. And the prevailing price was what?

Dr. McCLURE. About 60 to 65 cents a pound. Now, we were at first scared pretty nearly to death, and the conference lasted for some three days, and we did not know which way to turn. If they had taken our wool at 36 cents, it would have bankrupted every sheepman in the country. So we finally compromised with them that they were to buy our entire 1918 clip and such portion of the 1917 clip as was then in the growers' hands at the price prevailing July 30 previous. Now, that price was anywhere from 10 to 20 per cent, probably as much as 25 per cent, lower than the current prices prevailing on the date on which the price was fixed.

The War Industries Board told us that they were going to fix all prices. That was the kind of a proposition that they put up to us—that they were going to fix the prices on the things we bought—and we would be willing that they should fix the price of wool, provided they fixed everything else on the same basis.

Senator GORE. If they had done that, there would not have been any use of fixing prices?

Dr. McCLURE. There was not any use of them taking us out and fixing our price and not fixing the other prices.

Senator GORE. I understand, but if they had fixed the price of everything, it would have been just as well to have let it remained at the larger price, would it not?

Dr. McCLURE. We did not want our prices fixed.

Senator GORE. I understand that.

Dr. McCLURE. But if they were going to fix our prices, we wanted them to fix other prices on the same level.

Senator McNARY. What was that price?

Dr. McCLURE. I think it worked out on an average of about 53 cents.

Senator KENDRICK. Mr. McClure, may I interrupt you. I want to ask you if you recall at the time that the price was fixed that there was a number of sheepmen in the West that asked to have the Government take over all of their wool?

Dr. McCLURE. Yes, sir; that is correct.

Senator KENDRICK. The reason I call attention to that fact is because there was a delegation came here and asked me to go with them, and I did so.

Dr. McCLURE. You are correct about that, Senator, and I am not complaining; if the Government needed the wool, all right, if we did get skinned a little bit. Now, let's get down to the present situation. We imported into the United States this year 427,000,000 pounds of wool.

Senator GORE. That is, since the 1st of January?

Dr. McCLURE. No; I am told that this is from January 1, for the 10 months.

Senator McNARY. Four hundred and twenty-seven million pounds of wool?

Dr. McCLURE. Yes, sir.

Senator GORE. Principally from Australia and New Zealand?

Dr. McCLURE. From Australia, New Zealand, Argentine Republic, and South Africa. These figures that I have are from the Bureau of Markets, and according to them we had on October 1 in the United States in the hands of dealers and manufacturers, 521,000,000 pounds of wool. Now, in addition to that the Bureau of Markets estimates

that there is 175,000,000 pounds of wool in the hands of growers which is not included in the market report.

Senator GORE. That makes 700,000,000 pounds?

Dr. McCLURE. Six hundred and ninety-six million pounds.

Senator GORE. What would it be normally?

Dr. McCLURE. I think it would be 300,000,000 or 350,000,000 pounds.

Senator McNARY. The clip for 1920 and 1919 is on hand?

Dr. McCLURE. That is all on hand for 1920, also part of 1919.

Senator KENYON. What are the needs of the American people; how much wool is used here?

Dr. McCLURE. That is the total on hand, 696,000,000 pounds.

Senator PAGE. Against a normal of what?

Dr. McCLURE. Two hundred to three hundred and fifty million pounds. The different seasons vary, but some years it has been as high as 400,000,000 pounds. Then the next clip is coming on. The growers in the South start shearing February next. That clip will amount to 270,000,000 pounds. From those figures you will be able to get an insight into the condition. There is practically on hand now 966,000,000 pounds of wool, including the 1921 clip.

Then the wool consumption of the United States for the month of October was 38,000,000 pounds. Now, you can figure yourself how long this supply will last.

Senator McNARY. That is the normal consumption?

Dr. McCLURE. No, sir.

Senator McNARY. What would be the normal consumption?

Dr. McCLURE. Before the war our annual consumption of wool for the United States ranged around 450,000,000 to 525,000,000 pounds a year.

Senator KENYON. Per year?

Dr. McCLURE. Yes, sir.

Senator KENYON. So, you have practically a two years' supply of wool on hand?

Senator GORE. How much of that is represented by the wool produced in this country during 1919?

Dr. McCLURE. I can not say how much of it is domestic; the importation was very heavy.

Senator McNARY. Then, there was imported enough last year from Argentine, New Zealand, Australia, and South Africa to cover the normal consumption in America?

Dr. McCLURE. Yes, sir; before the war. Maybe the consumption has increased some since the war.

Senator GORE. Was there considerable carried over from 1919?

Dr. McCLURE. Yes, sir.

Senator GORE. To this time?

Dr. McCLURE. Yes, sir.

Senator GORE. On what account?

Dr. McCLURE. During the war, as I remember, the consumption was about 700,000 pounds of wool. When the war closed the Government had about 475,000,000 pounds of wool on hand.

Senator GORE. Foreign and domestic?

Dr. McCLURE. Foreign and domestic on hand. In addition to that they had a lot of tops, and yarns, and the Government has unloaded that. They still have on hand about 50,000,000 pounds.

Now, they are importing wool into Boston from the Argentine Republic with all charges paid as low as 9 cents a pound——

Senator KENYON. What would be the freight rate from the West to Boston?

Dr. McCLURE. Well, it is less than it is from any part of the country to Boston. My freight is \$3.20.

Senator WALSH of Montana. You mean more?

Dr. McCLURE. Yes.

Senator KENYON. And the freight rates have been recently raised in the West.

Dr. McCLURE. I am paying \$3.20. I loaded five cars of wool at Lakeview, Oreg., on which the minimum freight was \$1,050 a car. You take wool that is selling for around 9 cents——

Senator GORE. Why don't you send it around through Panama?

Dr. McCLURE. We can not get it to the west coast and then ship it around any cheaper. We are in the great interior. Our rate to the coast plus the ocean rate makes it just as cheap to ship it this way. That is true with regard to the bulk of the industry in the inter-mountain wool-raising section for the points that are close to the coast; we ship through the canal.

Senator McNARY. But they do not raise large quantities of wool?

Senator SMITH of South Carolina. Why don't you swap a carload of wool for a suit of clothes?

Dr. McCLURE. Well, at the price of some of the suits we saw down here in the windows, I could not get one for my whole wool clip based on the prices of to-day. Now, somebody is going to say that they do not want to put any burden on the consumer. This suit of clothes I have on is made out of Lincoln wool. It is the kind of wool I am raising constantly. At to-day's prices, there is 90 cents worth of wool in this suit. That is all this wool would bring and this suit cost me \$54, and at to-day's prices of wool, the wool in this suit is worth 90 cents. I would sell my whole clip on that basis if I had a chance.

If you take 9-cent wool—of course that is coarse low-grade wool coming in here, laid down at 9 cents a pound and there was 300,000 pounds of Argentine wool just the other day—it costs us 6 cents a pound to market our wools. We have freight rates of anywhere from 3 to 4 cents, and then we have two and one-half for commission, warehouse expenses, and other expenses, so that it costs us 6 cents a pound to market our wool, and if we only get 9 cents, we would only be receiving 3 cents more than the expense of marketing.

Senator GORE. Is there any surplus wool in other countries that you know of?

Dr. McCLURE. Yes, sir; Australia has a tremendous supply of wool.

Senator WALSH of Montana. I am interested in knowing whether the consumption is normal, and if not, how far from normal it is.

Dr. McCLURE. It is not normal, sir.

Senator WALSH of Montana. And also whether the extraordinary importation into this country is due, as a matter of fact, to the fact that Europe is not consuming what they ordinarily consume?

Dr. McCLURE. I think that is a very important factor, Senator. You are right about it; but this is what is happening: We have a

100-cent dollar over here, and they are anxious to market as much of this stuff to-day in this country as they can; and when they get that dollar home it is worth to them about \$1.40 in England.

Senator WALSH of Montana. Let us examine that for a moment. That does not make itself entirely clear to me. German marks, as I understand, are worth about $1\frac{1}{2}$ cents.

Dr. McCLURE. Yes, sir; I think about one and one-third.

Senator WALSH of Montana. And that is about one-tenth or one-twelfth of the ordinary value of the German mark?

Senator PAGE. Or one-sixteenth.

Senator WALSH of Montana. Well, it would seem to me under those circumstances that the German manufacturers would pay simply just 16 times in marks what the American manufacturer would pay in dollars, proportionately. What difference would that make? Now, when the German manufacturer competes with the American manufacturer he pays in depreciated German marks; he would have to pay, it seems to me, just about ten times as many marks as he would in the equivalent number of dollars if their currency were at its level.

Dr. McCLURE. Well, let's look at the thing this way. I am—

Senator WALSH of Montana (interposing). In other words, what difference would the depreciated currency make, provided there is a market in the country of the depreciated currency, and in that country the manufacturers are competing with the manufacturers in this country?

Dr. McCLURE. Of course, when you take Germany, I presume the market is somewhat influenced by the general conditions over there; but here is the way that it works—

Senator WALSH of Montana. But it is a fact that the market is limited, or that there isn't any market over there, and that is influencing conditions rather than the depreciated currency?

Dr. McCLURE. I suppose they do not have the money to buy these supplies; I do not know.

Senator WALSH of Montana. If they have marks enough and were competing with the American manufacturer, they would have to put up marks enough to make them equivalent to the purchasing power of the American dollar?

Dr. McCLURE. Of course, Germany has not the marks to buy its wool; but take the case of Great Britain. They are buying this wool. I can go to Canada and for 85 cents of their money bring back \$1 worth of wheat. In other words, the Canadian sends his wheat down here and gets our dollar and takes it home and it is worth \$1.15 over there.

Senator WALSH of Montana. But I do not understand that when he comes over here and buys a bushel of wheat for \$1.15?

Dr. McCLURE. No; he does not buy here. We buy there.

Senator WALSH of Montana. We buy there?

Dr. McCLURE. We buy a bushel of wheat—pardon me for interrupting you—

Senator WALSH of Montana. We go over there and buy a bushel of wheat for \$1.50 in their depreciated currency?

Dr. McCLURE. Exactly.

Senator WALSH of Montana. We take that wheat over here and it is worth, we will say, \$1.25 here in our currency.

Dr. McCLURE. Well, it is worth more than that.

Senator WALSH of Montana. Well, if we paid \$1.50, it would be worth approximately \$1.25. Of course, we would have to assume that he paid more there, probably \$1.50.

Dr. McCLURE. But, he does not pay more, he pays less. In other words, I can take \$5 of our money and go to New Zealand and buy \$7 worth of wool for it in their money. That practically amounts to an export bounty to those people of whatever the difference in exchange here and there is.

Senator WALSH of Montana. I can not understand that at all. The American manufacturers are competing with the English manufacturers, and with regard to New Zealand wool, the English manufacturers buy New Zealand wool. The English manufacturers takes English exchange there.

Dr. McCLURE. Yes, sir.

Senator WALSH of Montana. And the American manufacturer takes American exchange and the American exchange will buy more wool there than the English exchange will?

Dr. McCLURE. Well, that is just the case.

Senator WALSH of Montana. Well, yes; but when you transfer it to American exchange—there is English exchange—you get exactly the same amount in—

Dr. McCLURE (interposing). No; you get more English exchange.

Senator WALSH of Montana. Sure you do.

Dr. McCLURE. You get more wool.

Senator WALSH of Montana. But, he would not use the American exchange in buying wool?

Dr. McCLURE. Yes, sir; that is what he would do. I can take my \$5 and buy English exchange at the rate of \$3.50.

Senator WALSH of Montana. That would buy \$7 worth of wool in their depreciated currency, which is only worth \$5 in their—

Dr. McCLURE. No; it is worth \$7 there. I could take my \$5 and exchange it for British currency and go to Australia and use that exchange to buy wool, and I will bring back here \$7 worth of wool.

Senator WALSH of Montana. Not \$7 worth of American money?

Dr. McCLURE. Five dollars of our money buys \$7 worth of wool in English money.

Senator WALSH of Montana. That is the way Ponzi got rich, it seems to me.

Dr. McCLURE. I do not know of anything more that I can add.

Senator GORE. What is your remedy for this?

Dr. McCLURE. Our remedy is this, as woolgrowers we believe there should be an embargo on the importation of wools and meats. I have explained that with the live-stock industry destroyed, we are destroying something we can not get back. Now, we believe we are entitled to have, and ought to have an embargo against the importation of wool until such time as these conditions change. That is the thing we are asking for here.

We are very much in favor of this resolution which your committee is considering. We see the possibility of getting some additional finances out in our country, but we feel that we must, if we are to be saved, and if these banks out West are to be saved, and if the farmer who has corn to sell, or hay to sell is to be helped, that we must have help. The farmer in Idaho can not market his hay

unless we go into the market and buy it, and we can not buy that hay unless we can have the money to buy it with.

We are buyers of corn, but we have not the money to buy now, to go into the market and buy the corn. With the market in the condition that it has been in this year, it is going to ruin the people in the West. There are a lot of banks that are tottering on the edge of bankruptcy to-day, and unless something is done to restore confidence in the wool and meat business we are going to have a panic out there, we believe, such as we have never known before.

Now, an embargo on wool will not seriously interfere with the manufacturers, because we have in this country an adequate supply of all grades of wool to meet their demands until such time as the tariff is to be revised. And there is another thought that enters into it. It is generally understood that there is to be a revision of the tariff that will come along next July or August. Now, the wool dealers and wool manufacturers are going to load this country with enough wool between now and the date of the passage of that tariff act so that the American wool grower and farmer will not receive one penny's benefit from the tariff for a period of three years. At the time that the McKinley bill was passed, you remember that during the eight months preceding the date that tariff went into effect an importation of wool poured into this country and that during those eight months there were 357,000,000 pounds of wool that came into the country before the new tariff went into effect.

Senator GORE. There could be a tax on imported wool after it got here?

Dr. McCLURE. I think not, personally, Senator, unless it was in Government warehouses at the time.

Those are the things that are staring us in the face. Now, we hope you gentlemen will assist us in securing an embargo on the importation of wool, live stock, and live-stock products.

Senator McNARY. For what length of time?

Dr. McCLURE. Well, you can set your own time for that Senator. You can set a year. I should say that it ought to be repealed when the tariff was revised.

And, we do not see anything else that can help us.

Senator PAGE. It is simply an emergency?

Dr. McCLURE. Senator, we are in a building which is burning down and we are burning down a building which can not be repaired. The marketing of sheep this year is almost as heavy as it was last year in spite of the fact that we had less than a 50 per cent lamb crop.

Senator KENYON. And it is a question of destroying that which can not be developed here again?

Dr. McCLURE. We can not ever get it back. When you kill this cow or this ewe you are killing something that can not be restored. There is no place to get them.

Senator GORE. You think this is the only way of keeping the wool out?

Dr. McCLURE. Oh, yes, sir. I do not know enough about banks to say that the Federal Reserve could have saved it. We think they could still have done something more for us. We are mighty thankful for what they did do. We think that the Federal Reserve Board has tried to do in a few days what ought to have taken years to

have done, and that our trouble started the day they started the deflation of currency, on the 20th day of May.

Senator KENDRICK. Dr. McClure, I think it is due to the Federal Reserve Board here to say at this point that they contended at the time the question was first raised before the Committee on Banking and Currency that they had not requested the regional banks to ask their member banks to restrict credits on any legitimate industry.

Dr. McCLURE. Yes, sir; I think that is true.

Senator KENDRICK. Their request was limited, so Gov. Harding told our committee, to loans for speculative purposes.

Dr. McCLURE. I agree with you, Senator; that is what they told us.

Senator KENDRICK. And he insisted before that committee, as Senator Page will recall—you remember you are a member of that committee, are you not?

Senator PAGE. I am.

Senator KENDRICK. Senator Gronna, our chairman, is a member. You remember his statement, do you not, Senator?

The CHAIRMAN. Yes; I remember.

Senator KENDRICK. That he had not written suggesting to the regional banks the restriction of credit for legitimate businesses. Now, that ought to be said to clear the views of the board.

Dr. McCLURE. I think the regional banks took the position that they meant that there was to be a deflation on all lines.

Senator KENDRICK. Pardon me, Dr. McClure, but even though the regional banks had restricted the loans exactly as the Federal Reserve Board had requested them to do with reference to these loans, it might have meant that even then the member banks might have taken the position of going out and lending to those borrowers that paid them the best.

Dr. McCLURE. Yes, sir; I think that is true.

Senator KENDRICK. And, to restrict the loans to legitimate patrons rather than to the speculators?

Dr. McCLURE. Maybe we ought not to say this about the Federal reserve banks, the board is not present, but unfortunately this Washington board does not seem to be able to do much with the banks out there.

Senator KENDRICK. Well, Dr. McClure, it is a well known fact that they have no authority to tell these member banks what they shall do.

Dr. McCLURE. Exactly.

Senator KENDRICK. They can only recommend to them.

Dr. McCLURE. That is true.

Senator KENDRICK. Now, has Gov. Harding issued a statement down here with regard to getting money to finance this wool?

Dr. McCLURE. I think Gov. Harding put out a statement to the member banks of the different districts urging them to use liberality in discounting this wool paper.

Senator KENDRICK. I think they did that in every case.

Dr. McCLURE. But in our district, we are under the Kansas City district, and they absolutely refused wool paper. I believe they did make some proposition, did they not, Mr. Wilson?

Mr. WILSON. They at first made a proposition that we make a 15-cent chattel mortgage on the wool, but they absolutely refused to handle the paper otherwise.

Dr. McCLURE. You see, we already had a chattel mortgage against us.

Senator KENDRICK. I want to point out another thing. When the difficulty first started there was this thing. Originally back last spring, when the first difficulty occurred, I think it was a year and a half ago, and I asked the Federal Reserve Board at that time if it were not true that the western banks, the regional banks, were becoming afraid of their securities and were restricting these loans on that account. They denied it at that time, but I think subsequent events proved that that was the correct view. The local bankers were afraid that their securities were declining in value.

Dr. McCLURE. Well, it is pretty hard to finance an industry that is already in a little further than it ought to get in, but we are in, but I believe if you will give us an embargo we will work out.

Senator KENDRICK. I think there ought to be an embargo.

Dr. McCLURE. That is mighty nice.

The CHAIRMAN. You undoubtedly have made a careful study of the present laws, Dr. McClure?

Dr. McCLURE. Yes, sir.

The CHAIRMAN. What is your idea with regard to what is known as the antidumping clause?

Dr. McCLURE. That will not help us at all.

The CHAIRMAN. It will not help you at all?

Dr. McCLURE. That prevents stuff from being dumped here at a lower price than it is sold for at home. Now, that is not being done. The only thing, I suspect, is that the British Government is storing these lamb carcasses from New Zealand without them ever having been sold. Now, maybe we could get at them through the anti-dumping law. That might affect them, but it will not affect the wool situation, because they are not dumping wool at lower prices than they obtain at home.

The CHAIRMAN. They are really sold at a lower price than the American prices, of course?

Dr. McCLURE. Yes, sir; I think that is true.

The CHAIRMAN. I think that is true with reference to all products?

Dr. McCLURE. Yes, sir.

The CHAIRMAN. In connection with Senator Walsh's statement, I will say for the record that I keep in pretty close touch with the prices of wheat. I naturally would do so, and the Canadian wheat is commanding a premium above our wheat on the Winnipeg and Minneapolis markets of 20, 25, and 30 cents a bushel.

Senator WALSH of Montana. That, of course, is due, I take it, Senator, to the difference in the rate of exchange?

The CHAIRMAN. Exactly.

Senator SMITH of South Carolina. Do you know whether Government bonds and Liberty bonds that are now held by the banks—I presume in your section of the country the banks still hold a considerable number of these bonds?

Dr. McCLURE. I do not know what quantity.

Senator SMITH of South Carolina. They are now worth around 85 and 90 cents, and they let the customers pay 10 or 15 cents, and they hold the bonds with the understanding that that bond while held by the bank should not be charged against its commercial credit. What effect has that order that has gone out commercializing all of

those bonds and charged them up against the different sections as so much money being outstanding in that section when crystalized in the form of bonds charged up against the commercial credit rather than the charge standing on its own footing and leaving the commercial credit unimpaired. To what extent does that operate in your section?

Dr. McCLURE. I do not know. I would say to a very considerable extent.

Senator SMITH of South Carolina. My attention was called yesterday, and has been called several times, to the condition of the farmer who has a credit on \$2,000, a commercial credit that he can run for 12 months to do business on a farm. The bank solicited him to buy a bond for \$1,000 with the understanding that that bond would stand upon its own responsibility, the bank carrying 90 per cent of it and him paying 10 per cent, and they would hold it there with that equity without any time limit. When the spring opens and he goes to get his \$2,000 credit at the bank they tell him that he has not got a \$2,000 credit there, that he has already used \$1,000 of it, as that bond is charged up to his commercial credit.

Dr. McCLURE. Yes, sir.

Senator KENDRICK. And I am investigating right now to find out to what extent that element enters into these tremendous loans which we are told are permitted in the agricultural sections. I am informed by a reliable banker, one of the biggest bankers in my section of the country, that is the case all over the country.

Dr. McCLURE. Yes, sir, Senator. I do not have anything more, unless you want to ask me some questions.

The CHAIRMAN. Your people are in favor of reviving the War Finance Corporation?

Dr. McCLURE. Yes, sir; we are very much in favor of it, because we think it is going to help us; and if it will help us to export some of our surplus wool, we ought to export some wool.

Senator GORE. Have you tried to arrange any credits with Europe?

Dr. McCLURE. We have been talking with Secretary Houston, but he does not approve of those things, or anything else, as far as I can find out, which relates to the farmer.

Dr. Wilson is here. He is president of the Wyoming Wool Growers' Association.

The CHAIRMAN. We will be very glad to hear Dr. Wilson. We want to thank you very much for your statement.

Dr. McCLURE. I want to thank the committee for the opportunity of appearing before it.

STATEMENT OF DR. J. M. WILSON, OF MCKINLEY, WYO., PRESIDENT OF THE WYOMING WOOL GROWERS' ASSOCIATION, MEMBER OF THE EXECUTIVE COMMITTEE OF THE AMERICAN LIVE STOCK ASSOCIATION, AND ALSO OF THE AMERICAN NATIONAL WOOL GROWERS' ASSOCIATION.

The CHAIRMAN. Give your name to the reporter, and the business you represent.

Dr. WILSON. I am president of the Wyoming Wool Growers' Association, member of the executive committee of the American Na-

tional Live Stock Association, and also of the American National Wool Growers' Association.

I do not believe that I want to add very much, but I would like to just give you a little history of our own country.

In the first place, I would like to say something with regard to the Federal reserve banks, or, rather, the Federal Reserve Board. I was one of a committee that came here. Senator Kendrick had been working with the board through our secretary and trying to explain matters, and we came down here, and after my return home we issued a circular letter to all of the wool growers in Wyoming, in which we said that we believed that Gov. Harding was very helpful in his suggestion, and that he had called our attention to the fact that the plan we had come down here with was injurious and would hurt, and there were a great many bankers affected, and we had worked out a plan that was absolutely satisfactory to every wool grower present, and we felt very pleased and highly satisfied, and that we felt that our people were going to get through all right.

The plan was practically this, as outlined by Gov. Harding, that the bank knowing the condition of the woolgrowers—and Mr. Marlow, of Montana, was there, and he objected for some time at first, and did not want to make such an arrangement with the woolgrowers, and did not want to advance such a sum as they thought was sufficient, and the question was asked as to how much, and he said that is up to you men. You know the conditions. That was entirely satisfactory to Mr. Marlow and the others that were there, that they could take and issue certificates, or rather—I can not remember the term—but it was simply this, that we would take the wool and load it on the car when it was being shipped from the terminal point, and we were then, the banker was to attach the farmer's note or the woolgrower's note to this bill of lading and that was to be cashed by some of the regional banks, whichever bank we were doing business with, to the amount of the capital and surplus of the member bank. And that was not to be charged up to any line of credit that that bank had with the Federal reserve bank. And Mr. Marlow objected that that would not save our people, that that would not be enough, and he made some other suggestions, and the governor came back at him with other ways in which we were to get more, that this wool paper could be discounted with their correspondent, and that the correspondent could discount that with the Federal reserve bank without it being charged up to any of the credit that that bank had with the Federal reserve bank. And with that plan we thought it was possible to take care of the business and everybody was thoroughly satisfied and felt that the Federal Reserve Board had done a great deal for us.

We are unfortunately in the Kansas City district and when we went to put up our paper—I know when we went home we notified all of the people—and when we went to put it up to Mr. Miller, he said "No," and absolutely refused. And they called him and had a meeting at Cheyenne, where most of the bankers of the State were present and his proposition was simply this, that he would take a chattel mortgage of 15 cents a pound on the wool and would discount that paper.

- Senator KENYON. How much did you say that he was willing to loan, secured by that chattel mortgage?

Dr. WILSON. Fifteen cents a pound. That simply meant that the wool at that time had a normal value of 40 cents a pound and was only considered sufficient security for a loan of 15 cents a pound and we felt that a 15-cent mortgage would cause a break in our prices, and tend to bring the price down to 15 cents. And when we came back at Gov. Harding regarding the matter, Gov. Harding said that he could do nothing with the member banks; that the governor of that bank controlled the policy of the bank.

Senator KENYON. That is true. Of course, the Federal Reserve Board can not tell a member bank how much they can loan.

Dr. WILSON. This Federal reserve bank, this board could not tell the Federal reserve bank at Kansas City which they should do?

Senator KENYON. They can not do that.

Dr. WILSON. I do not know what a board is for. I thought it was of great importance, this board at Washington. I do not know how many members were present, but they had nearly a full attendance and when those members decided on a course, I had an idea that it would more or less control what the Federal reserve banks in the country would do, but I found out that it did not. Now, I do not know as to the law or anything about that board, but I do know that those are the facts. But there has been so much said about the Federal reserve bank that I simply want to set Gov. Harding and the board here right. They were very helpful and if the plan they suggested had been carried out, why, I don't think we would be here pleading to-day because we would have secured what money we needed from this.

Senator WALSH of Montana. Has it worked out in the Minneapolis district?

Dr. WILSON. I do not know, Senator. I have not heard as much complaining from the wool men in that district, although they are in hard shape.

Now, Dr. McClure told you of the condition of the sheep men throughout the country and also with regard to the way the sheep are being sacrificed now.

With regard to that one bunch that were sold for 34 cents. They were first sent to Denver and were held there for two or three days. Being old ewes they naturally shrunk very badly. Not being able to dispose of them in Denver, they loaded them up and sent them to Omaha, with the same result. And there has been a part of the time this fall, during this rush, that it was impossible to get cattle or sheep either one into the stockyards the day you arrive. Some of them stay there on the cars for quite a while before they even get unloaded. And after they get unloaded they go into chutes and then into a little pen, and then they are put in the alleys and driven in the alleys for quite a distance to get to the pen, that they are intended for.

Every commission company has so many pens in a certain part of the yard, and some of the live stock have not been able to get to those pens in two days and there have been cases where men have taken their stock out of the yards and put them back on the train and shipped them home.

Senator Walsh tells me he has just gotten a return on 750 odd head of sheep sent to market, and he got \$900 for the 750 odd head, and the best place in the United States to sell them to-day, I think, is in Chi-

cago, and they are paying something like $3\frac{1}{2}$ and 4 cents, and fat ewes are going as high as 5 cents.

Senator KENDRICK. That would mean about \$3 a head, wouldn't it, Doctor?

Dr. WILSON. Why, yes, sir; for the average run of ewes. I have here a statement from one of the largest if not the largest sheep salesmen in the United States. They say:

The sheep market is even worse than the lamb trade. Choice, big, fat, heavy native ewes are selling at 4 cents, and thousands of cull to medium ewes from 2 to $3\frac{1}{2}$ cents. We believe we have solved the sheep business. Quotations on the Chicago market show tankage is selling at \$80 to \$90 a ton. You can buy the best native ewes here at \$80 and the bulk of the ewes at \$50 to \$70 a ton, so we advise our friends who are feeding hogs to kill the sheep and feed them to the hogs, as it is the cheapest feed that you can get, much cheaper than tankage and fully as good; then you have the skins besides. There is nothing on the list as cheap as these fat native ewes now. Not only that, but the packers say they can not sell the mutton, and if you come to Chicago and buy a few loads for feed it will help people who have sheep to market later on.

This statement further says:

Choice feeding lambs, which were selling up to $12\frac{1}{2}$ cents a week ago, are down to $11\frac{1}{2}$ cents now, and all the choice feeding lambs this week sold from $11\frac{1}{2}$ to 12 cents. Fat lambs have declined rapidly and the best sold here Wednesday up to 11 cents. To-day, with very few here, the top was $11\frac{1}{2}$ cents while the general market is 25 to 50 cents higher.

Senator GORE. Those prices have not been reflected in the price of stock?

Dr. WILSON. The best answer I can give with regard to that, Senator, is that in Denver a little over a week ago the president of the Live Stock Exchange, Al Prey, there had been getting a part of his meat from the packing house and taking it home at night, the packing house being in the yards, and he went home one evening without any and had to go around to a corner store to get a little bacon, and he went in and asked for 2 pounds. It was a very nice little meat and grocery store, and the party put up what he supposed was 2 pounds of bacon, and he says, "How much is it?" The merchant says, "\$1.35." He says, "My God, I only wanted 2 pounds," and he says, "That is all you have got, 2 pounds." "You do not mean to tell me that you charge $67\frac{1}{2}$ cents a pound for cured meat that costs you 36?" "Yes, sir; that is just what I am charging." "Well," he says, "you ought to be prosecuted." And he says, "I am going down town and see if I can not do something with you." He found out that he cut up one beef a week. There are other outfits in Denver cutting up as high as 80 and there are others which cut up 1, 2, or 3 a week. He was paying his cutter \$35 a week. He published this and said that they ought to be compelled to reduce their prices 15 cents a pound retail. Now, that was the average price right along, and on Monday morning Denver had meat at 15 cents a pound less than they had it for Saturday night.

Senator KENYON. Can you get that man down to Washington?

Dr. WILSON. No; but I will tell you—of course, you could get him down to Washington. You can get some other men that are just as good, and they could accomplish the same thing if they would take the proper steps. That had its effect in Chicago. The retail prices in Chicago went down Monday a week ago.

Senator GORE. I don't believe it has been felt in Washington yet.

Senator KENTON. I think there ought to be a monument erected to that man.

Senator McNARY. Now, what is your remedy for the situation?

Dr. WILSON. Why, simply stop things until we catch up. I was asked if there was any place in the West where you could go, west of the Mississippi River, to-day and buy a large bunch of cattle, and I said that I did not, unless you go to the market. I do not know of any place in the West where you can go to-day and buy a large bunch of sheep.

Senator GORE. This low price of wool is not reflected in the price of woolen goods?

Dr. WILSON. I am afraid it is not. It is not in the suit—in the made suit.

Senator GORE. Then it would be a good idea to get the men in here who manufacture the woolens and ascertain what is the cost of manufacturing woolens and see what they are selling for, and try to trace it through to the final consumer and see where all of this spread of profit takes place.

Dr. WILSON. A young man in our country who won a bet on the election bet a \$75 suit of clothes—

Senator GORE. He ought to be prosecuted for stealing it.

Dr. WILSON. No; I beg your pardon; he said that there would be a 3,500 majority. He thought that he would be smart and beat the condition in some manner, and by some cooperative arrangement he sent down to the Carolinas for enough woolens to make two suits, and he took that to the tailor. I do not know just what the cost of that cloth was, but I think it was \$20 he had paid for the cloth, and he thought he could get two suits for the price of one.

Senator GORE. He sent to South Carolina?

Dr. WILSON. I do not know—to one of the Carolinas—and he got the goods for \$20 for the pattern, and he took it to Denver to have it made, and the first place that he went to wanted \$150 for making the suits. But he finally did get it made for \$115. He had paid \$20 for the pattern, \$40 for the two patterns—I believe he got an extra pair of pants—and they cost him \$115. That would make \$155 for which he got the two suits. He could not have bought them at the tailor's, though, for less than two hundred and a quarter.

Senator KENTON. Your remedy is an embargo?

Dr. WILSON. That is all I can see.

Senator GORE. Don't you think that if you put an embargo on that it will raise the price of woolen goods?

Dr. WILSON. I do not see how it could.

Senator GORE. I know, there are many things in which we can not see any reason.

Dr. WILSON. I know, Senator, most anything can occur. I met a gentleman in Mr. Clay's office in Chicago, and he told me that he was a manufacturer, and he says that he has 6,000 employees. He has had them so long, and has never had any labor trouble, any strikes, that he feels like they are his children and he has to help to protect them, and he says that they have so many millions of dollars worth of goods in New York, and whenever he reduces the price of the goods, the foreign goods are reduced to just a little bit lower, and that when he catches up and would like to reduce them again the price is reduced on the foreign goods; that they can reduce faster than he can.

I am informed, and I believe that it is absolutely true, that England is sending lots of wool to Germany but is retaining the title to the wool. It is not sold, nor disposed of to Germany, but the Germans manufacture it into woollens and then England takes the yarn and disposes of it in the markets of the world. She does not let those people have any title to it, but—take our own situation: Last winter, the first of this year, we started into feeding. Not only that, but we had all of our own feed. It happened that we had plenty. I had to buy one car of corn extra.

We generally sell from \$75,000 to \$125,000 worth of stuff. This year, up to date, we have not sold one single, solitary dollar's worth of stuff. We got \$16,000 advanced on our wool, and we have had to borrow to pay expenses after that \$16,000 worth. And we borrowed a little more; we borrowed \$5,000, and he had hardly turned around until we had to have another \$5,000, and now we are in debt between \$45,000 and \$50,000. We have 3,000 lambs to sell, but we have not been able to sell them; I did not happen to be around when the fellows came around to buy them. We had an offer when I left—I do not know whether the boys have taken it or not—for 10 cents a pound, weighed up at home. That is all we asked. We were given that offer over the phone, and I said, "You have bought something." He said, "Well, you have got a week, and you can see them and I will give you a first mortgage on them," which is perfectly satisfactory, and that means we will have to have the money to buy corn and pay the freight.

I do not know how it has come out; I do not know whether they did it or not. But remember, we have to get money to carry him. We need the money to pay our own debt, and the condition of our banks is deplorable. They have all stood back of us. They realize that if this thing goes they have gone too. There is no helping it; and they are making every effort to carry every person they can; the banks are willing to do everything they can. I do not believe we have had anybody closed out. I know of one condition there where a banker had \$70,000 owed to him by four or five parties who were cattlemen. They sold the cattle and paid \$70,000, and he was absolutely unable to renew the notes; they could not renew the notes for \$30,000 for them. And they had to get a renewal in another place. Now, in an ordinary banking and in ordinary times if he has \$100,000 coming to him and \$70,000 would be paid at once he would be glad to take care of the \$30,000. Our people are simply in very bad shape. Everybody has got to wait until they make something.

The CHAIRMAN. If it will not disturb you, I want to ask you a question to get your opinion. The question has been asked here with reference to the exchange; isn't this the way it works out: The raw material here in America, what we call raw material, which is the farmer's finished product, is very cheap. Dr. McClure has given it as his opinion that the wool that goes into a suit of clothes is worth about 90 cents. Now, does it make very much difference how high the present American dollar may be if the foreign country can come here, and has come here and pay the premium on our currency and buy this raw material? You can guess what happens, that that material is shipped to the foreign countries; manufacturers pay their help in their own depreciated currency. Now, that supposedly applies to Germany; that is about 16 to 1 now. Now, for every dol-

lar that the American manufacturer pays out, for every dollar that the German manufacturer pays out, the American manufacturers will have to pay out \$16. Now, if that manufactured article is permitted to come in here you will see that that is an unfair competition. And England is to-day, and every other European country is to-day, making enormous sums of money out of their depreciated currency.

Now, that is one question which I believe ought to be discussed because foreign countries have been profiting; I know whereof I speak, on their own depletion in currency. We know that money, as I said, is cheap, and labor is high, and their products are high, but too rapid depletion means absolute ruination. Now, there is the danger, and where the Federal Reserve Board has made a mistake, and I have so told Gov. Harding. I am not an economist, I am simply a farmer, but I can readily see that it means the ruination of American industries if this program is carried on, and the currency; that is, the value of the currency is being enhanced and the value of currency in all European nations is being lowered. You are a college professor, I understand—

Dr. WILSON. No; I deny that. I do not care what you call me, but I am not a college professor.

The CHAIRMAN. That is all right and I beg your pardon; but I would like to have your opinion.

Dr. WILSON. I think that to a certain extent is true. I understand that Germany is paying their labor less than they paid back in 1914; less than half. They are able to get labor extremely low, and that is why England is sending wool over there and holding the title to the wool, holding the title in their own name, because they can get it manufactured, the labor is so much cheaper than even in England. They are thereby enabled to make an additional profit. I think that that is absolutely correct.

The CHAIRMAN. Whether you are a college professor or not, I know you are a business man of experience; of great experience. Now, is it your experience that it is dangerous for us here in America to try to deflate our currency—

Dr. WILSON. I have seen a statement in one of our recent papers, lately, that they believe that England, always bright, always looking out for England, was keeping their currency in its present condition simply for the benefit that it gave her. And, if they are bright enough to do that, we ought to be bright enough not to let her get too much from us. Mr. Higgenbarth has been up in Canada, and Canada, not more than two weeks ago, maybe not that long ago, passed an embargo on hides, felts, and skins, of all animals of every description against Europe, Asia, Africa, South America, Central America, and Australia.

Senator GORE. You mean on hides coming into Canada or going out?

Dr. WILSON. That does not apply to us and Mexico; that embargo of Canada. That is on condition—

Senator GORE. I know, but I do not catch you, Dr. Wilson.

Dr. WILSON. Canada has put an embargo on them coming into Canada on importations.

The CHAIRMAN. Now, I am interested in wheat, in the wheat market, and the Canadian farmer sells a bushel of wheat for 12 to 15 cents

more than the American farmer gets, but the Canadian farmer pays his debts with Canadian dollars, just as readily as the American pays his debts with the American dollar.

Dr. WILSON. Absolutely, and the Canadian farmer will export his wheat to this country, and, when he exports it, he will get 15 cents on the dollar extra.

Senator SMITH of South Carolina. But the point that Senator Gronna is making is this, that if the farmer has incurred debts in the deflated dollar or at the inflated prices, that now, when he comes to settle that debt, he settles it on an appreciated dollar. Therefore, this is going to ruin him, because he bought when the dollar was worth so much. Now, when he goes to pay that debt, the dollar is worth twice that. Now, I think they should have held this until the season when there was a minimum amount of credit out in order that the agriculturalist, who turns over his investment once a year, might have been given a chance to begin the next production with a gradual deflation so that when he buys these supplies to produce his crops in the spring, he would not have to pay it in the fall with a dollar that was worth twice as much, and, at the same time, his stuff was only bringing in half the number of dollars, and less than half than the number of dollars. That is the idea. You take the cattle raiser, his costs were increased until he paid 10 cents a pound for them, and when he went to sell them he could only get 5 cents a pound.

I buy a Liberty bond, for instance, at \$1,000, and I am a farmer. That will take 5 bales of cotton, when I purchase the Liberty bond 5 bales of cotton would pay for it. Now, it will take 30 bales of cotton to pay for it.

Senator GORE. I do not see where it hits the bondholder.

Senator SMITH of South Carolina. If the farmer bought a Liberty bond for \$1,000 last year, to pay for it this year he would have figured that it would have taken 5 bales to have paid for it, but, when he goes to pay for it he finds that it will take 30 bales of cotton to pay for it instead of 5 bales.

Senator GORE. Yes; I see the point.

Senator SMITH of South Carolina. That is the situation.

Dr. WILSON. I read where a banker had sent for a cotton trader to come in and see him. He came in smiling, knowing that he was going to get something hard, and that he had better smile as long as he could and he said to the banker: "You know, as I was coming up, I was just thinking of the change in conditions." He said: "Do you remember me coming here five years ago, and I wanted to borrow \$1,000 and you turned me down and wouldn't let me have it?" He says: "You know, I owe you \$100,000 this morning." The banker says: "That is what I sent for you for." He says: "I am awfully sorry, but when that comes due, I will have to call it. I can not possibly renew it." The man says: "What is your business?" The banker says: "I am a banker." The man says: "Well, I am here to tell you that you will be in the cotton business as soon as you call that loan." He did not have it.

You know the condition, gentlemen. There is no use talking about it, in the West, and I include the stock raiser in the West. I am not making a special plea for the sheepman, because the cattleman is in

just as bad shape. The cattlemen in our country last year rather than to buy feed and feed their cattle, and a great many sheepmen shipped their cattle and sheep to New Mexico, Texas, and Arizona, wherever they could find feed and pasture for them, and in the spring them shipped them back. Now, I have got a friend who shipped 8,000 head of sheep back from down there to Wyoming. He had them in the stockyards at Caspar and there came that April storm and he lost 3,000 head. He had 5,000 head that he had paid freight to Texas on and freight back left, and he had 3,000 head killed that he had paid freight to Texas on and back. But he was fortunate enough to sell his wool for 61 cents.

Senator McNARY. What agricultural products, Doctor, would you include in this embargo? You say that the live-stock industry is in the same condition as the wool, and you really want to safeguard the wool, and the lamb, and the live stock. Would you go any further?

Dr. WILSON. Well, I do not want to go too far, because you understand the further we go the less liable it is to pass.

Senator McNARY. I understand that you are not making a special plea for anything except sheep. You are not making a special plea for the cattle, although you say they are in the same condition?

Dr. WILSON. They are, absolutely.

Senator McNARY. Then the embargo ought to include them?

Dr. WILSON. I want the embargo to include sheep and live stock and their products.

Now, they sold some packer hides at Denver here two weeks ago at 5 cents.

Senator KENDRICK. Packer hides; good hides.

Dr. WILSON. Packer hides.

Senator KENDRICK. Five cents? The quotation of the market is that they are above that.

Dr. WILSON. But there is nobody to buy them.

Senator KENDRICK. Packer hides sold as high as 71 cents a pound in August, 1919. That was the peak price.

Dr. WILSON. They sold, I know, at 35 cents and as high as 40 cents, which was a high price during the war. But those hides sold for 5 cents, and that is the price to-day. That is, packer hides at 5 cents. Six or eight months ago hides were selling for 24½.

Senator KENDRICK. Are there many hides and pelts being brought into this country from foreign countries?

Dr. WILSON. I do not know with regard to the situation, whether there are hides and pelts being brought in or not. I have not noticed lately, but that is the condition, and I think that wool and live stock and their products should be included—that we ought to cover all of them.

Senator KENDRICK. Live stock?

Dr. WILSON. Live stock and live-stock products.

Senator KENDRICK. You might emphasize the fact on wool?

Dr. WILSON. Yes, sir.

The CHAIRMAN. We are very much obliged to you, Dr. Wilson.

Senator WALSH of Montana. If that is all that Dr. Wilson has to say, with the permission of the committee, I would like to call Mr. Walker.

STATEMENT BY MR. J. F. WALKER, OF GAMBIER, OHIO, SECRETARY OF THE OHIO WOOL GROWERS' ASSOCIATION AND CHAIRMAN OF THE WOOL COMMITTEE OF THE AMERICAN FARM BUREAU FEDERATION.

The CHAIRMAN. Please give your name and the organization you represent to the reporter.

Mr. WALKER. J. F. Walker, Gambier, Ohio; secretary of the Ohio Wool Growers' Association, chairman of the wool committee of the American Farm Bureau Federation.

Mr. Chairman and Senators, our position in the East with regard to the wool situation is not a life and death proposition with us altogether, because we follow diversified farming, but our condition is very serious. We have attempted to increase the production of wool in Ohio and the adjacent States in the past three or four years. Dr. McClure has told you somewhat of the efforts that have been made during the past few years. During the past few years I have addressed over a thousand meetings. I have talked production to those men, during the entire period of the war, because I knew the situation that we were in with regard to suitable wool not only for the civilian population but also for our soldiers.

Senator GORE. Have you been into those localities lately?

Mr. WALKER. I do not dare to go there now. I am staying away.

We are confronted with this situation. There are a great many men in Ohio and adjacent States who have stocked up with sheep at prices that were high. It was nothing uncommon for ewes to bring from \$18 to \$25. That was no unusual occurrence. To-day those sheep, and I am speaking of the very best ewes in the State, can be purchased at prices ranging from \$6 down. They are breeding stock. The market on other grades of sheep has depreciated accordingly. Ohio has a reputation of producing the best wool in the United States. On the 16th of November—we have a cooperative marketing association with 4,000,000 pounds of wool. I happen to be the manager of that association. We offered 1,200,000 pounds of fine Ohio wool, good clean wool, at 44 cents and the reply that we got was that they would not be interested in these wools at more than 30 cents a pound and then in a minor way.

Senator KENDRICK. Mr. Walker, you are giving the price of sheep per head at this time, not of breeding ewes, do I understand?

Mr. WALKER. Yes, sir.

Senator KENDRICK. What are ewes worth now?

Mr. WALKER. I bid in a bunch of ewes, two lots of ewes which I was asked to bid in. Gentlemen, I bid in those ewes, those two lots. The first lot at \$5.85, and the second lot at \$6 per head. Those are, I might say, the very best strain of ewes in our State. Ewes are selling at an average of 12 to 14 cents a pound. That same lot of ewes, gentleman, sold at a public sale and that same gentleman a year ago refused \$30 a head for those ewes.

Senator McNARY. What is your remedy?

Mr. WALKER. We are asking for an embargo.

Senator McNARY. Just on wool?

Mr. WALKER. We are confining our effort in saying we want an embargo on wool, because we do not know of any other remedy,

and naturally as wool men we are only interested in wool, and can only speak for the business which we represent.

Senator McNARY. Wool and lamb carcasses, and other products?

Mr. WALKER. Wool and lamb carcasses and other products. We have an oversupply at the present time. There is no apparent market.

You might be interested in a question which came up with regard to the imports that are coming into this country. I have here figures taken from the Bureau of Markets and they are from 1909 to 1913. The average importation was 203,298,000 pounds. In the year 1917 we imported 420,995,000 pounds. We more than doubled the average prewar importation. In 1918 we imported 453,727,000 pounds; in 1919, 422,000,000 pounds; and the statement given you for the first 10 months of this year, 427,000,000 pounds.

Senator WALSH of Montana. Just a minute, Mr. Walker. Probably a very large portion of that went into the Government purchases?

Mr. WALKER. Well, a part of that large importation did go into the Government purchases.

Senator WALSH of Montana. Well, that has been disposed of practically. They only have about 50,000,000 pounds.

Mr. WALKER. It has been resold to the dealers and the manufacturers.

Senator WALSH of Montana. Have you any information relative to how much of that is really still available and unmanufactured?

Mr. WALKER. The reports here give on hand October—these are Bureau of Market reports—520,000,000 pounds, in round numbers.

Senator WALSH of Montana. That is, still on hand?

Mr. WALKER. That is, in the dealers' and manufacturers' hands. The woolgrowers have, I should say, 95 per cent of the wool of the present wool clip. The present wool clip is still in the hands of the growers, or under their control, in pools in some central location.

It will be only five months until we have a new clip off in the east. When we have this new clip there is going to be between 900,000,000 and a billion pounds of wool in the United States to take care of a consumption which is normally taken care of—even during the war period they only consumed 600,000,000 pounds.

Senator WALSH of Montana. Am I correct in the assumption I make that the extraordinary accumulation of wool in this country now in the hands of dealers and manufacturers was brought about by the purchase of wool by the Government during the war period?

Mr. WALKER. I would not say by the Government, because the Government only purchased that wool during one year. It was brought about in two ways. The first is this: Austria and Germany normally consume 800,000,000 pounds of grease wools per annum, and for six years they have consumed but very little wool, due to the fact of the World War. They had no way of getting that wool during the period of the war. They have had no credit since that time. That wool has accumulated, and America has been the best market for that wool because of the fact that we were the only country that was buying with money that was worth 100 cents on the dollar. It

was worth more than that in foreign currency, and the best possible outlet for all of these wools was America, and our manufacturers were running full speed and they anticipated their wants and they bought large quantities of wool. The woolen mills ran possibly more than normal, but I do not have those figures. Consumption was approximately 600,000,000 pounds. Our normal production in the United States yearly is 300,000,000 pounds. We have had during the last two or three years a gradual accumulation of wool because of the fact that we have imported more wools than we have actually put through our mills.

Senator McNARY. After the 1921 clip, which you fix the date as the 1st of May, you will have enough wool in the hands of the American manufacturers to last a period of two years?

Mr. WALKER. We will have enough wool, putting it very conservatively, to last for normal requirements, at the rate we have always consumed wool, at least 18 months, or until June, 1922.

Senator KENDRICK. When will the other crop which is coming on be on the market?

Mr. WALKER. It will be ready for the market between May and June, 1921.

The CHAIRMAN. You are a wool grower, so you are familiar with the supply of wool. Now, why is it with these conditions our manufacturers are still buying wool from abroad, from the foreign countries?

Mr. WALKER. Well, it is because they feel they can buy wools there cheaper than here. Some of the manufacturers tell us here in the East what their quotations are from the foreign markets. I strike here a quotation from South America. A man says I can buy wools for 16 cents a pound. That would be suicide for us to take any such price as that. He says I can buy wools from Australia laid down here at approximately 30 to 40, which is very cheap, even to-day, and in addition to that the man that was buying his wool anticipated that he would be able to buy it cheaper a little later on, and we have been unable to dispose of our wool at any market in the country. We have scoured the country. At this time last year we had actually marketed 2,000,000 pounds of wool, and were cleaning up our accounts and getting the money back to the growers by the 1st of November. This year, on the 1st of November, out of 4,000,000 pounds of wool on hand, we had not sold a half a million pounds, and then I think we had sold more than any other pool in the United States.

The CHAIRMAN. Of course, I am including Australia.

Mr. WALKER. Absolutely.

The CHAIRMAN. How about Argentina?

Mr. WALKER. Argentina is practically the same. I think that is 30. I think they pay a little better than that for Argentina.

The CHAIRMAN. So, with our money high, I assume that a dollar will go further; they can pay their freight with the difference in exchange?

Mr. WALKER. I think that might be interesting in that connection.

Senator KENDRICK. Well, in this value, these relative values of the two currencies, the difference will pay the freight?

Mr. WALKER. More than pay the freight. It will more than do it.

Senator McNARY. From the large woolgrowing countries?

Mr. WALKER. From the large woolgrowing countries; yes, sir.

I am a fairly strong man, but I can not carry enough raw wool on my back to buy myself a suit of clothes. It would take the products of 3 acres of my ground, which is worth \$350 an acre, devoted to sheep growing to raise me enough revenue to buy a suit of clothes. Now, that is the condition that is confronting us men. And that is the situation in most of the East. We have the lambs left.

I sold a bunch of lambs in Texas at 40. My men could not pay me. They had sheep, but could not get the money out of them. I started to feeding my hogs, and my hogs all took cholera and died. I have got my surplus lambs, and I have got my corn left.

But the big thing ahead of us right now is the holding of the men back on the farm. Sixty thousand farmers between the ages of 15 and 60 have left Ohio farms during this last year, out in Ohio alone; and for every man who came back to the farm in the State of Ohio seven men left last year.

Now, what are we going to say to those men? What are you gentlemen going to say to them? What are you going to do in a way to make it safe to continue in agriculture? Fifty per cent of the purchasing power—here is a thing that I want you men to consider seriously—50 per cent of the purchasing power in the United States is invested back on the farms. Now, those men can not buy, because they do not have the money to-day. My wool is entirely tied up. My sheep that I did sell have gone to south Texas and the men can not pay for them. What little wheat we raised is still in the barns, because the elevators are full of Canadian wheat and the mills are buying Canadian wheat instead of Ohio wheat. I can not find a market for anything I have got to sell. The only consolation I have is that I have gotten credit at the bank or I would be unable to go on.

Senator KENYON. Are there many tenant farmers?

Mr. WALKER. Have we many?

Senator KENYON. And what is their condition?

Mr. WALKER. I just want to illustrate. **Mr. E. O. Bradfute**, of Xenia, who is one of our most prominent farmers in Ohio, made this statement to me two weeks ago. He had a son who came in from the service and was offered \$2,500 a year over at Columbus. He wanted to go back on the farm. He has got one of the very best farms. I do not know at what he values his farm. He has a large farm, and a large barn well stocked with good live stock, and it is in a high state of cultivation. He told the boy to invoice the stock and he would make a proposition. After the boy invoiced the stock, he told him that he had better pare it down in a few places. That boy has worked hard all summer and has not squandered a dollar and to-day he is \$7,000 in debt. "Now," he said, "I am going to wipe the slate clean with that boy and start again." There is just where the tenant farmer is to-day. I know of some farms where the tenant farmers are selling everything they have got on the farm, and are trying to get out of the country.

Senator KENYON. What percentage of your farmers are tenants?

Mr. WALKER. I can not answer that question accurately. I presume that better than 50 per cent of the farmers, actual farmers, are tenants.

Senator KENYON. And how do they pay their rent, by cash? That is a \$100 an acre farm.

Mr. WALKER. I think the majority of the farmers work on a basis of 50-50, on a 50-50 proposition, the owner furnishing the farm and the tenant doing the work and furnishing some stock and implements on the farm.

Senator KENYON. On 40-cent corn?

Mr. WALKER. We sold our corn in Ohio, that corn can be purchased in Ohio at prices ranging from 40 to 50 cents a bushel on the farm.

Senator KENYON. How is he going to pay the rent?

Mr. WALKER. He can not pay the rent. He simply can not pay the rent. He will simply have to repudiate his debts. That is the only thing that the tenant farmer can do.

Senator McNARY. Are there any farmers in Ohio that can sell their corn for the cost of production?

Mr. WALKER. Not this year. My farm—we go over our account very carefully—and I told the men that are working for me that if they would take everything that was sold off of the farm this year, take the increase in stock at market prices, and I would pay the taxes on the farm, I would not charge them a dollar for the investment or the equipment or anything of that sort, but if they would do that they could have it for their wages if they would take it. They said that they would study over it and look at the books, and they came to me voluntarily just before I came down here and they said, "We are going to work for you for less money next year. You can not afford to pay us what you have been paying us." I have had those men with me ever since I began farming, 14 years ago. They are a part of the farm, just as much as I am. That is the class of men I have on my farm. That just shows the condition. And I know that every man has worked hard trying to make something out of the farm.

The CHAIRMAN. Could you give the committee what it cost to produce your wheat this year?

Mr. WALKER. I am not so familiar with wheat, Mr. Gronna, because in my particular section we do not raise wheat except as a by-product in order to get the corn ground down in grass again.

Senator KENYON. I want to ask a more fundamental question: What effect is this whole situation having upon the minds of the farmers?

Mr. WALKER. What effect would it have?

Senator KENYON. What effect does it have?

Mr. WALKER. Well, what effect would it have, what effect would it naturally have on anybody that suffers these losses. It is a proposition with which they are becoming disgusted.

Senator KENYON. What do you think it is due to?

Mr. WALKER. Well, you can hear most any reason. We are not so much interested in what brought this matter about. It is a condition and not a theory that we are interested in. We are not particularly interested in the cause, but we know that it has happened.

The CHAIRMAN. That is a question that we ought to be able to work out.

Senator WALSH of Montana. What is your remedy, what remedy do you have to offer?

Mr. WALKER. I think the most feasible plan would be an embargo against the products of which we have an abundant supply in this country until such time as they can be absorbed through the channels.

Senator McNARY. You want to reserve the American consumption, the American market for American products?

Mr. WALKER. Absolutely. You might be interested to know that labor is interested in the farmer. It might be interesting to you to know that last week I had a letter from a labor-union man who was writing to me along another line, that he said, "We are in favor of eating American live-stock products and American wheat. We are not in favor of wearing clothes that are not made in America. In fact, we stand for 100 per cent Americanism." That is the attitude of labor to-day, because labor is looking forward to the fact that if the farmer can not buy, they can have no market in which to sell the product of their labor, and they want to stick by the farmer. They know that the farmer can not buy automobiles and can not buy anything unless he has the money with which to buy it, and there is not any man who is more interested.

Senator McNARY. What agricultural products would you propose should be included in this embargo bill?

Mr. WALKER. I am not here to make any recommendations other than on wool, because we are more interested in the supply of wool.

Senator McNARY. And the lamb carcasses?

Mr. WALKER. I know that the other persons can give very good reasons why their products should be included. I think it is no more than right that they should be taken care of and I am quite willing that they should be, and would be glad for them to be taken care of—any product that to-day is suffering from an abnormal importation of foreign products to take advantage of our high-price market conditions as compared with theirs.

The CHAIRMAN. You people have discussed the question of reviving the War Finance Corporation?

Mr. WALKER. It has been discussed; yes, sir; and we feel that it would be a great help. There is no question about it and we are in favor of any remedy that will alleviate the condition. We think that the War Industries Corporation would help, and that it would help materially.

Senator WALSH of Montana. You think that it will help conditions in central Europe so that they may absorb some of their surplus wool?

Mr. WALKER. That would be one way in which it could help re-establish the credit of central Europe and allow them to go on purchasing wool. But I am not over sanguine about Germany coming in and buying wool, because if Germany could buy wool they could buy cheaper in South America, if they had the credit, or in Australia. Now, an instance of that—

Senator WALSH of Montana. That is the argument; they do not have the credit, and we have to extend them credit, upon a basis of an immediate arrangement.

Mr. WALKER. England has advanced some credit to Austria, about \$800,000,000, in order to rehabilitate their factories, and they are shipping 20,000,000 pounds of wool to Austria to start their factories going.

The CHAIRMAN. Are there any further questions that you wish to ask, Mr. Walker?

There is one question that I might ask you and that is, what does it cost to produce a bushel of wheat; about what was the cost this year to produce a bushel of corn; do you know?

Mr. WALKER. We figured it out on our farm—now, I am not qualified to make a statement with regard to this, because I am a live-stock farmer, and my specialty is in live stock. The grain that is raised on my farm is an incident with us rather than the main profession. Well, our corn and our wheat—I can tell you what the wheat cost us to produce. It cost us \$4.25 a bushel to produce this year because we had practically a failure. While we normally raise 30 to 35 bushels to the acre, we only raised 10 bushels this year. It would have cost us more than that if I had not put in oats and gotten a crop of oats that way. Our corn has cost us this year, for every bushel of corn we have, and it has cost us about \$1.04 a bushel. The average price for our corn now is about 75 cents a bushel. That is what it is selling for with us, as near as I can figure; that has been the cost, \$1.04.

The CHAIRMAN. How much is corn selling for now?

Mr. WALKER. Right in our immediate vicinity you can get it for 60 cents, but, you see, we are not in the corn section of the State. Down in the corn-producing section of the State it is selling for 40 to 45 cents a bushel.

Mr. HEFLIN. It has cost you about 44 cents a bushel more to produce it than you are able to sell it for?

Mr. WALKER. Yes, sir.

The CHAIRMAN. We are very much obliged to you, Mr. Walker.

Mr. WALKER. I thank you.

STATEMENT OF MR. L. G. CONNOR, OF THE UNITED STATES TARIFF COMMISSION.

The CHAIRMAN. Give your full name and the position which you occupy to the reporter.

Mr. CONNOR. L. G. Connor, United States Tariff Commission.

Senator WALSH of Montana. You say you are with the Tariff Commission?

Mr. CONNOR. Yes, sir.

Senator WALSH of Montana. How long have you been with them?

Mr. CONNOR. I am loaned to the Tariff Commission from the United States Department of Agriculture. I was with them from August of last year until the 1st of last April; and I am with them now, again, until about the 1st of March.

Senator WALSH of Montana. What is the character of your work with the Agricultural Department?

Mr. CONNOR. I have been an assistant agriculturalist.

Senator WALSH of Montana. What particular work were you doing?

Mr. CONNOR. I was working in connection with the sheep and wool industry.

Senator WALSH of Montana. How long have you been occupying that position?

Mr. CONNOR. I have been working in connection with the sheep and wool industry for several years.

Senator WALSH of Montana. Have you heard the figures that were given here this afternoon by the witnesses concerning the placing of an embargo on the importation of wool?

Mr. CONNOR. Yes, sir.

Senator WALSH of Montana. Are they substantially correct?

Mr. CONNOR. I think they are, sir. If I may say, sir, I have a great deal of detailed information of that sort which I never try to carry in my mind. I can not give the figures exactly. I have them on paper, and can give them to the committee. They might be of more value to the committee.

Senator KENYON. I think that would be a good idea. Have you any compilation of that character?

Mr. CONNOR. I have been trying to do that, but I have not had the time, because I have had considerable work down there upon which I have been putting in my daytime and nighttime, and I have not been able to get to this.

The CHAIRMAN. Have you that detailed statement ready at the present time?

Mr. CONNOR. It would take a couple of weeks if I put in all of my time to get it in the form I would like to have it in, but I can give the figures to you approximately in a very short while.

Senator WALSH of Montana. How long?

Mr. CONNOR. Within a couple of days, I think.

Senator WALSH of Montana. What would be the general character of those figures, Mr. Connor—what would they cover?

Mr. CONNOR. They would cover the existing stock in this country and abroad and, as near as anyone can get from the trade, the general situation in Europe. That, of course, is something no one knows. Nobody knows what the European situation is—in Germany, Poland, Austria, and the old part of Hungary—and no one knows when they are able to get back on a normal basis.

Senator WALSH of Montana. Would that include an estimate of the current production in the world?

Mr. CONNOR. The current world production; yes, sir.

Senator WALSH of Montana. And would that include the current consumption by countries?

Mr. CONNOR. Well, that is a very difficult thing to get because of the conditions in the British possessions. The British authorities are very careful about what they say, and anyone's guess is pretty nearly as good as anyone else's.

Senator WALSH of Montana. Well, what is the basis of such a policy of secrecy?

Mr. CONNOR. I do not know, sir.

Senator WALSH of Montana. How do you know they are careful in doing it?

Mr. CONNOR. Because they say so.

Senator WALSH of Montana. They say so?

Mr. CONNOR. Yes, sir; for instance, the statement is made unofficially there is approximately 400,000,000 pounds of wool in the British market and passed into the hands of speculators; but there has been nothing said as to what the real amount was, so far as we know.

Senator WALSH of Montana. They just say that it is "reported"?

MR. CONNOR. Just reported that there is approximately 400,000,000 pounds, and they have in addition 3,000,000 bales of wool, just about 3,000,000 bales surplus.

Senator WALSH of Montana. There is no difficulty about getting substantially accurate figures concerning what the production and the consumption and the imports are into this country?

MR. CONNOR. No, sir.

Senator WALSH of Montana. Will you tell us in a general way what the United States produces—the normal production in this country is—and the normal importation and give us the total consumption?

MR. CONNOR. That is, material purchased by the large American wool manufacturers. Before the war, up to the end of the fiscal year they had gotten about 600,000,000 pounds. That is about what the consumption was.

Senator WALSH of Montana. How is that divided between domestic production and importation?

MR. CONNOR. It is pretty nearly half and half. As a rule, before 1914 we would average about 525,000,000 pounds; but 215,000,000 pounds of that is imported wool, and, of course, considerable of that was carpet wool, some of which is useful in the manufacture of clothing.

Senator WALSH of Montana. Well, of the importation of 300,000,000 pounds, how much of that was carpet wool?

MR. CONNOR. It would average about 215,000,000 pounds. I really could not say how much of it was carpet wool; somewhere around about 13.

Senator WALSH of Montana. The United States does not produce any carpet wool?

MR. CONNOR. Very little. We would be better off if we had none.

Senator WALSH of Montana. From where do they get it, from what source does it come?

MR. CONNOR. From the Navajo and sheep of Arizona and New Mexico. And then there is always a part of every lot of fleece in this country which is available for carpet use, because it is very low and very coarse.

Senator WALSH of Montana. Well, then, you would say that there was approximately 100,000,000 pounds more produced here than is imported?

MR. CONNOR. I would say a little over 100,000,000 pounds. That is the prewar basis.

Senator WALSH of Montana. I understand. Let us get down to the war period. Was the situation before the war, and while the war was going on in Europe, and before we entered the war, did our importations increase or diminish?

MR. CONNOR. They increased, sir. There were several restrictions, but in a general way importations increased at least 50 per cent. I can not give you those figures offhand. They have not been published, but they are readily available. It increased very rapidly, very rapidly, due to the arrangement of the British Government, and those importations were very heavy from South America.

Senator WALSH of Montana. Now, what was the cause of that condition; what caused this unusually large importation into this country during these years of 1914, 1915, and 1916?

Mr. CONNOR. We were making uniforms for the foreign Governments, sir; millions and millions of yards of goods were being used for that purpose.

Senator WALSH of Montana. So that that assisted them about getting supplies here?

Mr. CONNOR. Yes, sir.

Senator WALSH of Montana. Do you think the increase was as high as 50 per cent?

Mr. CONNOR. Up to April, 1917, at least 50 per cent; I am sure.

Senator WALSH of Montana. Now, of course, those supplies, those importations, were, of course, not consumed in the regular course of manufacture?

Mr. CONNOR. Yes, sir.

Senator WALSH of Montana. Now, coming down to our entrance into the war, what have you to say concerning the imports into the United States during the years 1917, 1918, and 1919?

Mr. CONNOR. They were very high, indeed, sir; at least double that of the previous prewar average, practically. Our consumption for 1918 was close to 720,000,000 pounds of grease wool.

Senator WALSH of Montana. Our importation?

Mr. CONNOR. Our consumption; of that we produced about 300,000,000 pounds. In 1919 the consumption was approximately the same, slightly less, in spite of the fact that the mills had shut down during January and February.

Senator WALSH of Montana. What year?

Mr. CONNOR. 1919. After the armistice there was a great deal of unsettled feeling in the trade. In fact, there was a great deal of unsettled feeling and uncertainty.

Senator WALSH of Montana. You say that during 1919 we ran up again as high as 700,000,000?

Mr. CONNOR. Practically 700,000,000; very close to that in 1919. The consumption was almost as heavy as it was during 1918.

Senator WALSH of Montana. How do you account for the extraordinary consumption of wool during the year 1918?

Mr. CONNOR. Because during the war the use of wool for civilian clothing, of civilian use, was restricted, and the people simply had to have the goods, and in 1919 those who could bought them. They had to. It was a condition which was forced upon them, and they bought in spite of the high prices which were prevailing, and the mills were working overtime supplying the clothing manufacturers and the tailors.

Senator WALSH of Montana. Thus, in 1917 and 1918 the extraordinary consumption went chiefly into military uniforms?

Mr. CONNOR. They went into military and naval uniforms, yes sir.

Senator WALSH of Montana. For military and naval use?

Mr. CONNOR. Yes, sir.

Senator WALSH of Montana. So that the ordinary civilian population was obliged to get along with less?

Mr. CONNOR. With less; yes, sir.

Senator WALSH of Montana. And to-day they have caught up?

Mr. CONNOR. They have caught up.

Senator WALSH of Montana. But there have been no considerable purchases during 1919?

Mr. CONNOR. It has been the prevailing sentiment in the trade—wholesale, retail, and in the manufacturing trade—

Senator WALSH of Montana. Well, then there would then appear to have been no considerable stock carried over in 1918?

Mr. CONNOR. In 1918 the stock carried over was less than the prewar normal in the fall of the year.

Senator WALSH of Montana. How about 1919?

Mr. CONNOR. In 1919 the wool dealers put a great deal of money into large importations from South America and South Africa.

Senator WALSH of Montana. I do not understand.

Mr. CONNOR. In 1919 the wool dealers put their large surplus revenues, surplus income, after they had paid their income taxes into wool. They bought particularly on a speculation basis and from South America, and from South Africa.

Senator WALSH of Montana. Because with the outlook at that time it looked like a good buy?

Mr. CONNOR. They imported very heavily. The fact that they imported 420,000,000 pounds during the year 1919 speaks for itself.

Senator WALSH of Montana. And what amount do you compute or estimate was carried over at the end of the year 1919?

Mr. CONNOR. The stock on hand in March, 1920, was somewhat above the prewar normal. I really do not know—nobody knows—what the real supply was at any period of the year, but the supply on hand, in the hands of the dealers and the mills is lowest about May or June and about normal along about March. And the supply actually carried over in March, 1920, was somewhat above the prewar normal. Not above the normal war period.

Senator WALSH of Montana. What would the prewar normal be?

Mr. CONNOR. It would be pretty nearly three-quarters of a year's consumption. A year's consumption was around 525,000,000 to 550,000,000 pounds. I am just giving it to you normally, in round figures. I am not giving it to the committee absolutely correct, but I can give you the actual figures.

Senator WALSH of Montana. Well, for the present take the estimate and then you can supply the figures, if you can get the figures, so far as you can do so, Mr. Connor.

Mr. CONNOR. If I may add, in the fall of 1919 the wool dealers had already stocked up on foreign wools and the demand had been all through 1919, the demand had been for fine wools, because the consuming public only buys and wants the fine woolen fabrics.

Now, the dealers thought that they were going to make a good buy and get a large amount of raw wool abroad, and they had already stocked up and had a domestic supply on hand in the fall of 1919, but the demand for that kind of wool did not become strong so they were very much afraid along in the fall of 1919 and in the winter of 1919 and 1920 when the British Government pretty nearly scared them to death, because they were loaded to the rafters of their warehouses with foreign wools, as well as domestic, medium low wools which they had bought at a pretty low price. That accounted for it absolutely. Well, the market, the wool market began to break on the 20th, the market had in it a dearth of low medium wool, almost. The wool men in the West when they went out in March and April and May they were not making any bids for low wool in the West. They only wanted fine wools. When the wool market broke

on May 20, therefore, primarily the market was for fine wools, because they had no sale for the other wools, and could not take them on consignment.

Senator WALSH of Montana. Well, now, when you say that the stock on hand in the month of March, 1920, was somewhat above the normal; about how much do you have in mind?

Mr. CONNOR. Somewhere around about one-fifth, I should say, above the prewar supply for that time of the year. I am not absolutely certain. It was figured at that time on the grease basis. Since the Bureau of Markets began to get up reports we are able to tell the kind of wool. Before, it might have been wool in the grease, it might have been pulled wool, and it might have been scoured wool.

Senator WALSH of Montana. The accumulation of one-fifth above the normal, would not operate to utterly demoralize the market, although it might operate to decrease the price. Do you think it would demoralize the market?

Mr. CONNOR. It would not demoralize the market.

Senator WALSH of Montana. To what do you attribute the apparent collapse of the wool market in the month of May?

Mr. CONNOR. To the continued importation of foreign wools and the decline in consumption. The consumers of wool were supplied within a few months.

Senator WALSH of Montana. Well, take the year of 1920, so far as the figures are available; how have the importations been during that period?

Mr. CONNOR. They have been pretty high. During the first 10 months of 1920 420,000,000 pounds of wool was imported, which is actually twice as much as was normally imported before the war in any one year. That is, the prewar average.

Senator WALSH of Montana. Yes; and then this situation is due, apparently to a larger increase in importation and a decrease in consumption?

Mr. CONNOR. Yes, sir; a large increase in importation and a decrease in consumption in the last 12 months, particularly during the last year, but the consumption has been largely decreased during the last six or eight months.

Senator WALSH of Montana. Now, is consumption identical with manufacturing?

Mr. CONNOR. Well, I am speaking of mill consumption.

Senator WALSH of Montana. Mill consumption?

Mr. CONNOR. Mill consumption; yes, sir.

Senator WALSH of Montana. That is to say the mills are not operating as they were?

Mr. CONNOR. No, sir.

Senator WALSH of Montana. Well, are they shut down or are they working short handed?

Mr. CONNOR. Both. They may not be running short handed, but they are running short time and have cut out all overtime.

Senator WALSH of Montana. Where have these large quantities of imported wool come from?

Mr. CONNOR. South America, South Africa, and during the last few months, Australia.

Senator WALSH of Montana. And is that the current product of those countries or does it come from their accumulated stock?

Mr. CONNOR. They had accumulated stocks in South America. The foreign wools were largely coming from South America. The foreign wools were largely coming from South America and South Africa. Some of it had accumulated in South Africa and in South America. Large stores had accumulated in New Zealand and Australia.

Senator WALSH of Montana. It was from the South American clip, however?

Mr. CONNOR. Almost the entire wool we get from South America is medium wool—that is, the Argentine wool; about 80 per cent of it is wool in the grease, or low-grade and medium wool.

Senator WALSH of Montana. During what period were these stocks accumulating in South America?

Mr. CONNOR. During the period after about April, 1917, when the submarine began its heavy sinking program of merchant shipping.

Senator WALSH of Montana. Have you any figures upon the increase of stock in South America during that period?

Mr. CONNOR. I have not been able to get hold of the exact figures. There are no official figures published so far as I am able to ascertain.

Senator WALSH of Montana. Can you supply us with the estimates?

Mr. CONNOR. I can give you the estimate.

Senator WALSH of Montana. An estimate would be the best that you could give us?

Mr. CONNOR. Yes; those figures will give you the surplus stock on hand in Australia, South American points during this last spring, the amount on hand practically amounted to an accumulated surplus because their wools are usually all sold out by the 1st of April every year. Their great clip comes off in September.

Senator WALSH of Montana. They are sold out by the 1st of April?

Mr. CONNOR. The 1st of April; yes, sir.

Senator WALSH of Montana. So then the figures would show the amount that was carried over each year about the 1st of April?

Mr. CONNOR. Yes, sir.

Senator WALSH of Montana. Well, now, about the other sources of Australia and New Zealand?

Mr. CONNOR. It is questionable, of course, about the figures from South Africa.

Senator WALSH of Montana. So far as South Africa is concerned, how about the surplus there?

Mr. CONNOR. I do not think that they accumulated any great surplus. I think their supplies were very low.

Senator WALSH of Montana. How did they get rid of their supplies during the period of the submarine activities?

Mr. CONNOR. They sold very heavily to Japan and also to the United States.

Senator WALSH of Montana. And they were brought around by the Pacific routes?

Mr. CONNOR. Yes, sir; I expect so. They could only get to Japan by the Pacific; but the submarines were not active in south Atlantic waters nor along our seaboard, except in sporadic instances. So the wool did not go through the submarine zone at all.

Senator WALSH of Montana. Well, then, as to New Zealand and Australia, the supplies coming from those countries apparently came from the accumulated stocks?

Mr. CONNOR. Entirely so.

Senator WALSH of Montana. What information have you concerning the stock carried on hand in those countries?

Mr. CONNOR. I do not have any actual details as to the stock carried over. I figure out that it would be about 2,800,000 bales in Australia and in the hands of the British Government. Add that to the South American stocks and it will make about 3,000,000 bales. A bale weighs 330 pounds, so that is practically 1,000,000,000 pounds of wool.

Senator WALSH of Montana. In the nature of accumulated stocks?

Mr. CONNOR. In the nature of wool surplus added to the usual supply of wool. That is practically one-half, or nearly so, of the world's annual consumption of wool. It is not a big surplus though when you consider that the Central Empires didn't have any wool during the war; but considering the present financial situation it is an overwhelming amount.

Senator WALSH of Montana. I didn't understand that quite.

Mr. CONNOR. I said taking into consideration the normal consumption of the central European countries that the supply of wool is practically not more than will meet their demands under normal conditions, but those countries can not buy wool as they would under normal conditions. So when you consider the market conditions and the present financial situation this is an overwhelming supply.

Senator WALSH of Montana. I think that is all I desire to ask.

The CHAIRMAN. Senator Kenyon, do you have any questions that you care to ask?

Senator KENYON. No, sir.

The CHAIRMAN. You spoke about wool coming from South America. Will you kindly state from which countries that wool comes—from what portion of South America?

Mr. CONNOR. From Chile, Argentina, and Uruguay.

The CHAIRMAN. From what part of South Africa does this wool come?

Mr. CONNOR. From British South Africa.

The CHAIRMAN. It nearly all comes from British possessions?

Mr. CONNOR. Yes, sir.

The CHAIRMAN. So that we might say that the wool coming from Australia, New Zealand, and South Africa is coming from British possessions?

Mr. CONNOR. Yes, sir; practically.

The CHAIRMAN. If there are no other questions, we are very much obliged to you, Mr. Connor.

Mr. CONNOR. Thank you.

Senator WALSH of Montana. We will be very much obliged to you if you will put the table in, giving the figures, the exact figures, as nearly as you can get them for us.

Mr. CONNOR. I will be glad to do that.

Senator WALSH of Montana. Mr. Comer is present, and I would be glad to have you hear him.

**STATEMENT OF MR. GEORGE P. COMER, CHIEF ACCOUNTANT,
UNITED STATES TARIFF COMMISSION.**

The CHAIRMAN. Give your full name and the position which you occupy to the reporter.

Mr. COMER. George P. Comer, chief accountant, United States Tariff Commission.

Senator WALSH of Montana. Mr. Comer, can you give me any information concerning this general subject with respect to which Mr. Connor has been testifying?

Mr. COMER. I think Mr. Connor covered the information so far as I am familiar with the same.

Senator WALSH of Montana. What, in your opinion, would be the effect of the laying of an embargo upon the importation of wool into this country for a period of a year, or at least on those wools that come into competition with American production?

Mr. COMER. As an accountant for the commission I am not an expert in wool or the wool situation. I deal chiefly with the cost end of it and I have not an opinion on the matter that I can express as to the effect of an embargo.

Senator WALSH of Montana. Well, you can tell us this very likely: How long, in your judgment, would the present accumulated stock in this country supply the domestic demands?

Mr. COMER. I believe the gentleman before me stated that it would be something like 18 months or 2 years. Probably that is somewhat of an overstatement; perhaps one year.

Senator WALSH of Montana. One year overstated?

Mr. COMER. Eighteen months is probably an overstatement. I hesitate in expressing an opinion along those lines, because my interest is along the lines of the cost of production. Also, any opinion of mine on that would not be significant.

I may call your attention to the fact that this wool situation is serious all over the world. Australia has a great surplus, also Canada. And I speak this confidentially, although it is not important. There came to my desk day before yesterday an opinion from a man in Australia, whose name I can not mention, but he has a position with Dalgety, the greatest wool house of Australia. He said there was coming onto the market 1,600,000 bales of Australian wool, and also the British Government owns around 2,000,000 bales, making a total of Australian wool in the world of roughly 1,000,000,000 pounds. This is wool which must be marketed at some reduction in price, to quote from his statement; the normal output would be somewhere around 500,000,000 pounds, I take it, so that Australia has twice her normal amount.

Argentina is seeking two years' credit in Europe to market her wool and New Zealand has great stores. The world, roughly, has a clip of wool ahead.

Now, shall I proceed without further questions?

Senator WALSH of Montana. If you please, sir. Just one moment. Just an explanation of an expression you just used. When you say the world has a clip ahead you mean, I take it, that it has as much ahead as is an ordinary year's consumption?

Mr. COMER. That is to say, if you take the amount on hand at this time of the year normally and then add to that a year's clip, you would have something near the situation.

Now, in regard to what—

Senator KENDRICK. May I ask you a question there?

Mr. COMER. Certainly.

Senator KENDRICK. As regards consumption, is it above or below normal?

Mr. COMER. I should answer that it is below normal recently on account of the bad industrial condition in the New England mills. Six or eight months ago it was much above normal.

Senator KENDRICK. But the other countries that have manufactures probably are not?

Mr. COMER. Yes, sir.

Senator KENDRICK. What about those countries; are they proceeding at the normal rate of using these wools?

Mr. COMER. There is a depression, as I understand, of the wool trade in England also as there is in this country, and the chief problem seems to be to seek some way to get the wool into the great empty reservoir of Central Europe, but so far as I am able to ascertain they have not been able to work out that on account of the purchasing power or lack of purchasing power of their money.

Senator KENDRICK. What is the supply of wool in Central Europe, and to what extent are they consuming wool?

Mr. COMER. That I can not answer, partly because I am not as well informed as Mr. Connor and also that statistics are not available. Indications, however, are that their supplies are below normal, but a supply below a fiscal normal is one thing and a supply in terms of purchasing power is another. However, they have no purchasing power with their low rate of exchange and they can not take the wools.

Shall I proceed, Senator?

Senator KENDRICK. If you please. I interrupted you.

Mr. COMER. That is all right. I trust I do not give you the impression of taking sides in this situation, but as one somewhat familiar with the range conditions in the West, having made a study of that, we have information covering three years, and now the reports are coming in from the men of the Middle West, and I may say that the statements of Mr. McClure are borne out to a very considerable extent by reports we are obtaining.

I received a report from a gentleman near Denver, Mr. Harry Petrie, saying, "I consigned 46,000 pounds of wool to the eastern market and I received a 20-cent-pound deposit. I received a letter a few days ago asking for \$2,500 refund on the margin."

I also saw another report from a man in South Carolina saying, "I sold my wool clip, so many pounds, for \$55,000 and received payment. The man to whom I sold, sold it for 55 cents a pound and received payment, roughly, \$50,000. Three days later the wool was worth \$20,000 less. The break had come."

Now there, on the other hand, the drift had set in somewhat to the north of Europe for distribution of this wool. I did not know I was going to be called on to appear before this committee, but in working over some information to-day for the forthcoming tariff commission's report I became interested in the drift of the Argentine

wool. If I may read these figures, in round thousands, not to burden the committee:

1911, 18,000 metric tons came to us; 1912, 32,000; 1914, 253,000; 1914, 34,000; 1915, 103,000; 1916, 152,000; 1917, 225,000; 1918, 209,000; 1919, 132,000; and for the year ended October 30, 1920, 75,000. We are dropping back again.

At the same time the drift, as I said, is toward northern Europe. Dunkirk was taking before the war 132,000 in 1911; 1912, 90,000; 1913, 64,000; 1918, 72,000; 1915, 100 tons; 1916, none; 1917, none; 1918, none; 1919, 23,000 tons; 1920, 71,000 tons. They are starting back there.

Antwerp—I will not burden you with all of the details, 41,000, 40,000, 30,000, 36,000; none for 1915, 1916, 1917, 1918. Then 9,000, and then 42,000 this last year.

Hamburg, 88,000, 102,000, 93,000, 66,000, none, none, none for five years; then 26,000 this last year.

The same is true of the wool from Uruguay as for the Argentine wool. It has been drifting to its old market.

The CHAIRMAN. We are very much obliged to you, Mr. Comer.

Senator WALSH of Montana. I want to thank you, Mr. Comer, very much.

I would be very glad to have Mr. Connor come back.

Mr. CONNOR. Yes, sir.

Senator WALSH of Montana. Will you tell the committee what in your judgment would be the effect of the imposition of an embargo upon importation of anything but carpet wool for the period of a year?

Mr. CONNOR. I do not know what the effect would be, sir.

Senator WALSH of Montana. Would the stock on hand be sufficient to meet the consumption demands?

Mr. CONNOR. The total stock on hand would be quite sufficient.

Senator WALSH of Montana. Would be quite sufficient?

Mr. CONNOR. Yes, sir; it would be quite sufficient in amount, but I do not know whether the quality would be sufficient, as a matter of fact.

Senator WALSH of Montana. The qualities?

Mr. CONNOR. Yes, sir; the grades.

Senator WALSH of Montana. What would be the amount carried over at the end of the year?

Mr. CONNOR. I can not tell you, Senator. One can't say that the market is going to be normal or what the normal consumption is going to be. That is something nobody can tell anything about.

Senator WALSH of Montana. But isn't it substantially the same from year to year or from season to season?

Mr. CONNOR. It varies somewhat, but since last May it has been steadily going down, and the American Woolen Co. would operate along for a little while and then shut down again. They have recently begun operations again.

Senator WALSH of Montana. The year's supply would probably be something like 600,000,000 pounds?

Mr. CONNOR. About 600,000,000 pounds, I should say for the next two or three years, if the mills were working a reasonable amount of overtime and all machines were busy; but since last May they have gradually lowered it to about 50 per cent of the preceding consumption, about 25 per cent below the prewar consumption, and no manu-

facturers are putting in any orders. The mills have got to lower their prices, but the manufacturers of cloth are not buying.

Senator WALSH. What is the ordinary rate of consumption?

Mr. CONNOR. The prewar rate was about 42,000,000, or 43,000,000, or 45,000,000 pounds a month. It is away below that now.

Senator WALSH of Montana. But, I am speaking now of the carry over. There would still be some two or three hundred million pounds held here if there were no accretions in the meanwhile?

Mr. CONNOR. Oh, yes, sir. The supply of 541,000,000 pounds on October 1 did not take into consideration practically, or probably, close to 200,000,000 pounds in the hands of the producers. That would be 741,000,000 pounds. I do not know where they got the 900,000,000-pound figure. I hope to be able to find out.

Senator WALSH of Montana. All right, thank you. That is all.

Mr. CONNOR. Mr. Walker tells me that they got the 900,000,000-pound figure with the new clip coming off next May. Well, I think—I do not know how the consumption is going to be—but unless it picks up a whole lot, there is going to be more than 900,000,000 pounds on hand then. I think that is an understatement of the fact.

The CHAIRMAN. I was informed that another party wanted to be heard to-morrow morning. So, I think we better meet to-morrow morning at 10.30.

(Mr. Connor later submitted the following tables, which are herewith printed, in full:)

World's estimated production of wool.

	Prewar.	1920		Prewar.	1920
	<i>Pounds.</i>	<i>Pounds.</i>		<i>Pounds.</i>	<i>Pounds.</i>
United Kingdom.....	120,000,000	100,000,000	Russia.....	380,000,000	200,000,000
United States.....	288,000,000	300,000,000	South Africa.....	156,000,000	172,000,000
Canada.....	11,000,000	15,000,000	Australia.....	570,000,000	528,000,000
Argentina.....	264,000,000	330,000,000	New Zealand.....	200,000,000	210,000,000
Uruguay.....	143,000,000	150,000,000	Other countries.....	400,000,000	360,000,000
Central Europe.....	70,000,000	30,000,000	Miscellaneous.....	50,000,000	60,000,000
Mediterranean Eu- rope.....	90,000,000	70,000,000	Total.....	2,817,000,000	2,585,000,000
France.....	75,000,000	60,000,000			

Estimated world surplus of wool, exclusive of the United States, as of Dec. 1, 1920.

	Bales.
Wools owned by British Government when pool closed June 30, 1920.....	2,905,554
Probable disposal, July 1 to Dec. 1, 1920, at 150,000 bales per month.....	750,000

Probably on hand Dec. 1, 1920 (England, foreign ports, and Australasia).....	2,155,554
Probable Argentine surplus Dec. 1, 1920.....	525,000
Probable Uruguay surplus Dec. 1, 1920.....	60,000
Probable South Africa surplus Dec. 1, 1920.....	120,000
Total surplus Dec. 1, 1920.....	2,860,000
Australian shortage 1920-21 clip.....	400,000

Real world surplus.....	2,460,000
In pounds.....	812,000,000

¹ One bale contains an average of 330 pounds; 40 per cent are merinos, but very large part are undesirable (1,130,256 bales).

² For 19 months the average monthly disposal was 200,000 bales.

³ The 1920-21 clip is high in shrink, short, and unusually tender.

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This real surplus is less than a normal Australasian clip, and is about 36 per cent of the normal world clip which enters into the manufacture of clothing. It is approximately eight months' normal prewar net imports of wool into Europe south of Scandinavia and Russia and west of Turkey.

Fleece and range States, domestic wool production, 1919 and 1918.

	1919	1918
Fleece States.....	¹ 85,819,000	² 81,405,000
Range States.....	180,120,000	176,516,000
Total.....	265,939,000	257,921,000
Pulled.....	48,300,000	42,000,000
Grand total.....	314,239,000	299,921,000

¹ Practically 33 per cent of wool shorn.

² Practically one-third.

United States consumption, new wool.

	Pounds.
Fiscal years 1909-1914 (5 years) (including carpet wool, 104,381,000 pounds).....	517,322,000
Fiscal years 1914-1919 (5 years) (including carpet wool, 86,849,000 pounds).....	690,741,800
Fiscal year 1919-20 (1 year) (including carpet wool, about 90,000,000 pounds).....	¹ 750,000,000

	1917	1918	1919	1920
Wool stocks on hand Sept. 30 (grease and grease equivalent).....	<i>Pounds.</i> 550,000,000	<i>Pounds.</i> 405,000,000	<i>Pounds.</i> 663,000,000	<i>Pounds.</i> 452,000,000
Ofscored and pulled 1920 stock at original points ¹				² 175,000,000
Total.....	550,000,000	405,000,000	663,000,000	627,000,000

¹ Usually practically none.

² Estimated.

Situation on Dec. 1, 1920.

	Pounds.
Imports Oct. 1-Dec. 1, approximately.....	17,000,000
Pulled (4,000,000 per month), approximately.....	10,666,000
Total addition.....	27,666,000
On hand Sept. 30.....	627,000,000
	654,666,000
Consumption, Oct. 1-Dec. 1.....	78,000,000
On hand Dec. 1.....	576,666,000
Grease and grease equivalent (if tops and noils are included on grease equivalent basis), Dec. 1 stocks would be increased.....	70,500,000
Total.....	647,166,000

Imports to November 1, 1920, 234,000,000 pounds only, and not 400,000,000, as given the committee.

October importations were 8,633,647 pounds; November importations used above estimated to be practically the same.

¹ Estimated.

Consumption, first 10 months (grease wool and grease equivalent).

	Pounds.
1918	655, 246, 000
1919	502, 469, 000
1920	526, 417, 000

Consumption first six months of 1920 averaged 62,745,000 pounds grease and grease equivalent. Since then it has averaged only 37,487,000 pounds per month.

Imports by months are:

	Pounds.		Pounds.
January	41, 950, 071	July	9, 444, 610
February	26, 103, 165	August	14, 447, 810
March	33, 031, 931	September	11, 736, 534
April	54, 085, 770	October	8, 633, 647
May	13, 388, 934	November (estimate)	25, 000, 000
June	21, 079, 627		

(Whereupon, at 5.15 o'clock p. m., the committee adjourned.)

REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

SATURDAY, DECEMBER 11, 1920.

CONGRESS OF THE UNITED STATES,
COMMITTEE ON AGRICULTURE,
Washington, D. C.

The committee met at 10.50 o'clock a. m. on call of the chairman, Senator Asle J. Gronna presiding.

Present: Senators Gronna (chairman), Norris, Keyes, France, Capper, Smith of South Carolina, and Harrison, members of the committee.

The CHAIRMAN. Gentlemen of the committee, Mr. Wilcox is here and desires to be heard this morning. Please give your name, place of residence, and occupation to the reporter.

STATEMENT OF MR. E. V. WILCOX, SPECIAL WRITER FOR THE COUNTRY GENTLEMAN; RESIDENCE, WASHINGTON, D. C.

Mr. WILCOX. Mr. Chairman and gentlemen of the committee, I am a special writer for the Country Gentleman, and have been for the past year, but previously to that and for about 20 years I was with the Department of Agriculture.

The CHAIRMAN. You may make your statement to the committee.

Mr. WILCOX. I recently made a trip across the country from New England to Oregon and back through the Middle Western States, especially through Utah, Colorado, Kansas, and Nebraska, making a study for the Country Gentleman of the situation with regard to present schemes for financing agriculture. My attention was not given particularly, or not so much, to the sheep industry as to the cattle industry and a number of farm crops, but I learned a few things on that trip that were interesting to me, and I think perhaps have some general interest to the country at large.

In the first place, I found this sharp contrast between the situation of the feeders in Illinois and those of Kansas, Nebraska, and Colorado, we will say, that whereas even at the present the Illinois cattle feeders are able to get the means, get money, to buy feeder cattle from the stockyards and take them to their farms; are able to get that money merely on personal note from their local bankers—at least I may say all men who have had success in feeding heretofore and have had any experience and are likely to succeed are able to get that money in that way. On the other hand, in Kansas and

Colorado I ran across many instances of men who even with unencumbered farms, without a cent of mortgage, and with a supply of feed way beyond their needs, are still unable to borrow \$2,500 or \$3,000 to purchase poor cattle, feeder cattle, that were bellowing for this food in the yards at Kansas City, Omaha, and the same is true as to St. Joe and Denver.

The CHAIRMAN. Did you visit the St. Paul district?

Mr. WILCOX. I did not on this trip of which I am speaking.

The CHAIRMAN. I am sure it is safe to say that the condition is as bad there as it possibly can be.

Mr. WILCOX. No doubt.

The CHAIRMAN. I have been told that there have been weeks at a time when no country buyers, as they call them, were in the yard at St. Paul, and that every head of cattle that was sold had to be sold to some packing concern because there were no country buyers.

Senator SMITH of South Carolina. May I ask you a question right there: You are connected with a publication that circulates largely all over the country.

Mr. WILCOX. Yes, sir.

Senator SMITH of South Carolina. I sent down to the department of farm and domestic commerce, so as to post myself as to the amounts of exports of all sorts of American commodities, manufactured and raw, and to my astonishment I found that up to the present—and when I say up to the present, I mean covering their preliminary tables, which are not yet up in statistical form—that in fact the volume of our exports is as great now as it was during the period of what we called prosperity. And yet with wheat, or we may just take grain in general; with meat and meat products; with cotton, both raw and finished, going across the seas in as great volume if not greater volume than during the period of prosperity, we find ourselves, so far as the producer is concerned at least, in this deplorable situation of which we know in this country. According to those statistics this volume is moving, and what I want to ask you is, what is the negro in the woodpile?

Mr. WILCOX. You mean, why isn't there sufficient credit?

Senator SMITH of South Carolina. Yes. Somebody is getting money or they could not move these exports.

Mr. WILCOX. Well, Senator, I do not think I can explain that at all. I do not think I could explain it myself.

Senator SMITH of South Carolina. Well, is it possible that there are a fortunate few who, either abroad or at home, have some particular credit that enables them to pick up the commodities of those who are in distress, wherever they can find them, while the rank and file of those who can not compete, who have products that they might also export, are denied or have not the facilities therefor?

Mr. WILCOX. In talking with the manager of the Wichita Terminal & Elevator Co., in Wichita, Kans., he told me he was unable to sell much wheat at any good figure near by, near where their elevator is located, and that he used to send it to the Pacific coast and some to the Atlantic coast by rail; but that now, on account of the cost of transportation, he was sending everything to New Orleans, and that he was able to export wheat and sell it and was doing so, sending it by the nearest water route.

But the feeder situation in Kansas, as to cattle, so far as I can learn, is trebled by the fact that the wheat money—and there has been a great deal of wheat actually sold and the money received for it—had not been used to take up bank paper. Men who have sold wheat, many of them, are still asking renewal of their notes, and they have to do it because of the expense of harvesting that wheat and the scale on which they have had to live, have been so high that when the money came in from the wheat it merely took care of current expenses and did not allow them to take up their bank paper, which taking up of bank paper, I understand, the banks ordinarily depend upon to finance the feeders.

The CHAIRMAN. A great deal of money has gone out of that country to transient labor?

Mr. WILCOX. Yes, sir.

The CHAIRMAN. That is the situation in my State, I know.

Mr. WILCOX. Yes, sir; that seems to be the situation in Kansas. There is one other point that helps to explain the striking contrast between the Illinois feeder and the Kansas feeder: The feeding business appears to be financed, in part, by the packers—at least the vice president of Armour & Co. told me that they go on a hundred million dollars of feeder paper, cattle paper, and that they are on about \$100,000,000 of such paper at the present time. That paper is loaned through cattle loan companies and then is rediscounted and sold in the East.

A great deal of paper other than cattle paper was treated in the same manner, and when this call came for money, when the eastern banks called on the western banks for money, the western banks called on the cattlemen, with the result that the cattlemen simply pushed into the market what they had, liquidated their cattle. They played square and gave what they had to settle, and tried to settle. This started an absolute flood of cattle going into the market back yonder, beginning in the spring, when the cattle should have gone to the range. In other words, instead of those cattle going to the range, as is customary and as should be the case, on account of this calling of loans they went to Chicago, Omaha, and Kansas City. As far as I could find out on my trip there is probably not more than 50 per cent as many cattle on the ranges in the northwestern country as there were a year ago. This situation is due altogether, so far as I can see, to the fact that they had to liquidate.

The CHAIRMAN. Did you find that a lot of immature cattle and milch cows were shipped to the market?

Mr. WILCOX. More than ever before. You might say that some of the ranges were picked up bodily and dumped onto the stockyards to meet the situation, dry cows and feeders. I should say there were feeders of at least not over 100 pounds net average weight. So we have this curious situation out there—that the country is absolutely peppered with hay; I never saw so much hay in my life, at prices ranging from \$6 to \$14 a ton, and corn, from a huge crop, selling at from 35 cents to 50 cents or probably 55 cents a bushel.

Senator CAPPER. What State is this you are referring to?

Mr. WILCOX. The western edge of Kansas, in the corn belt.

Senator CAPPER. Yes; and I know of corn selling in the eastern end of the State of Kansas as low as 27 cents a bushel.

Mr. WILCOX. Yes, sir; I have no doubt of it. Still these actual farmers, men who have unencumbered farms or only moderately mortgaged farms, who have raised this hay and corn for a specific purpose, that of feeding cattle, are sitting there with their hay and corn and unable to buy these poor cattle that are bellowing for it in the yards; and I do not know what is going to become of them. I suppose they will go into cans, many of them.

I interviewed many bankers, and I want to say that I never saw them so favorably disposed as at present toward considering agricultural finance from a really constructive standpoint. Many of them have been caught by the present turn of affairs just as badly as the farmers themselves. They realize and frankly confess that this is a bad situation for them—to have loaned so much money for various purposes that they themselves are in a position that they can not take care of some of their best customers, with whom they have to live from year to year, and who have real security to offer. They have money galore loaned on so much poorer security than these men sitting up there on their hay and corn could offer, and yet the bankers are not in a position to loan them the money.

Senator NORRIS. How did you find the people engaged in other business; are they able to get money?

Mr. WILCOX. I think not much more than the farmers.

Senator NORRIS. If you wanted to buy an automobile out there, how about it?

Mr. WILCOX. I would have a great deal of trouble.

Senator NORRIS. I had a dealer to offer on yesterday to sell me an automobile on time, but I do not know whether he would loan me the money or the bank would have taken the paper up if I had had some wheat.

Mr. WILCOX. I find this encouragement in Kansas: That the bankers are all of opinion it has been an unfortunate thing that they have been led to loan so much money for speculative feeding, and they are looking for a way to get out of that situation. What I mean by "speculative feeding" is that in Kansas we have men who will start out in the early spring and borrow money and go down into Texas and buy steers and bring them to Kansas. They will rent pastures to run the steers on and pasture them there during the summer season, and then borrow money in the fall to feed the steers. They have no money in the game whatever, being merely speculators from start to finish. If things go well, all well and good, the fellow who loaned the money to these fellows will get his money. But they have no security but the cattle, and if they strike a bad market then they lose and the man who loaned the money loses.

Senator NORRIS. Those are men you call speculators?

Mr. WILCOX. Yes, sir.

Senator NORRIS. But there are thousands and thousands of fellows who own hay and probably own the farm on which they produce hay and corn; they may not be in debt at all, or they may be in debt to a slight extent though not badly in debt; that class of people feed a great many cattle, and they usually borrow money with which to buy the cattle.

Mr. WILCOX. Yes, sir.

Senator NORRIS. And they have the feed.

Mr. WILCOX. Yes, sir.

Senator NORRIS. And they have the place to feed the cattle already paid for. They have that investment already made, and the only thing they do is to borrow money with which to buy feeders. They would like to operate this year but they can not get money with which to buy feeders, and their feed goes to waste.

Mr. WILCOX. That is just the point I am making, too. These farmers did grow the feed, and they have had experience in feeding cattle, and they grew the hay and corn specifically for the purpose of feeding these cattle, and are able to take care of all the feeders in the stockyards if they could borrow the money with which to buy them. If the matter were properly presented to those who loan money for that business I believe there would be a better situation for the future. In this matter it is not necessary, so far as I can find, to deal in cattle feeders with the speculators at all. That is, actual farmers, are able to handle the number of feeders offered if they could be taken care of in a proper way. They are the ones that are now left out; they have come in too late and in the present financial situation they can not get the money.

The CHAIRMAN. You have made a study of this subject in your travels over the country, and I want to ask if you have any idea of what the remedy should be.

Mr. WILCOX. Mr. Chairman, I did not start out with the idea of getting evidence for the purpose of legislation. I was working on possible constructive remedies which the farmers themselves might bring out. In my opinion, the remedy is this for everything except, we will say, for crops in general: That the farmers should, in the first place, be properly organized into cooperative groups; that they should have representing these groups leaders who are comparable with big business men—agriculture from a national standpoint is big business. Personally, I think it is a great mistake for farmers to keep insisting on their representatives being dirt farmers strictly, because what the banker, what the big transportation man, what the packers want to deal with, is the man who knows business, who can talk calmly and not talk too much about hard luck. If a man goes in to see a banker, and tells him he has had this and that bad luck, naturally the thought in the mind of the banker is, I better keep off that man, it might be bad business to make a loan to him. In other words, such a talk produces the very opposite effect from the one the farmer wishes to produce. But when the farmers are organized with the right kind of leaders, men who can present the financial side of the group so that a banker can understand it, then the banker is ready to finance the proposition.

I might mention one instance which to me was the most illustrative one I got on my trip, because it deals with that situation in concrete and constructive form. It is true that it refers to an industry which so far as each farmer is concerned is a very petty thing, but it is important as throwing light on this subject. It has reference to alfalfa seed. In the State of Utah the farmers produce about 5,000,000 pounds of alfalfa seed annually. This is a very small, dinky business so far as each man is concerned; one man might have 15 bushels, and another man 10 bushels, and another man 8 bushels, and another even as few as 4 bushels. Of course, a farmer with 4 bushels of alfalfa seed could get no loan from the banker on that

small amount. But the farmer had to have money advanced in some way because he was short of money. So they took the matter up with the commercial agent of the farm bureau for the State of Utah. This man lives in Salt Lake City. In the first place, he had to have the alfalfa seed put in a warehouse, upon delivery to the warehouse receipts being issued. The seed was inspected and guaranteed to be good alfalfa seed. It was put in a good warehouse and guaranteed to be kept under proper conditions. Then this commercial agent got figures on the yield of alfalfa seed, year after year, back as far as statistics go, showing the amount of seed grown per acre, and therefore the amount required for the whole country; and the price of alfalfa seed, going back, as I have said, as far as statistics were available. That gave the banker exactly what he wanted to know. He then knew how much alfalfa seed was produced, how much we usually required per acre, what the price was, and therefore he knew how to make an advance on alfalfa seed.

When the commercial agent of the farm bureau of the State of Utah had this evidence in hand he went to a banker in Salt Lake City, of whom it was reported that a dollar could not be pried away from him with a crowbar. He thought it was a foregone conclusion that he would just have a nice talk with the man and nothing else. But when he went to the banker, so armed with information, he was astonished to be received very cordially and to be held for a long conference, in which the banker asked all sorts of questions to get this matter thoroughly in his mind; and at the conclusion of the conference the banker thanked him for presenting the proposition to him—an astonishing thing for a man who asks for money to experience, because he is usually looked at rather askance—the banker thanked the commercial agent for the opportunity to hear him, and then advanced him all the money he wanted. The banker understood that proper security was presented for the loans, and this came about from a thorough presentation and understanding of the business. The banker told the commercial agent that he never knew before what the alfalfa-seed situation was; that he never knew how to bet money on it, as you might call the proposition.

Senator NORRIS. He gave the money to the commercial agent?

Mr. WILCOX. Yes, sir.

Senator NORRIS. What did the commercial agent do with it?

Mr. WILCOX. He advanced it to the farmers.

Senator NORRIS. He divided it up among the farmers who had alfalfa seed in warehouses?

Mr. WILCOX. Yes, sir.

Senator NORRIS. And they gave their notes to whom—to the commercial agent?

Mr. WILCOX. No; the alfalfa seed is held in a regular warehouse, and each farmer having alfalfa seed in the warehouse gets a certain amount, which amount is advanced on his alfalfa seed and just charged against the seed as it is sold.

Senator NORRIS. Somebody must handle the money and see to the distribution of it. I want to trace the thing out to the end. Would a farmer who had four bushels of alfalfa seed in the warehouse get his share out of the total loan made?

Mr. WILCOX. Yes; he gets his share. The bank has a call on the security, which is in the warehouse.

Senator NORRIS. Every man who had alfalfa seed in the warehouse had a certificate to show how much and where it was?

Mr. WILCOX. Yes, sir.

Senator NORRIS. And turned that certificate over to the banker who made the loan, doing it through this commercial agent of the State of Utah?

Mr. WILCOX. Yes, sir.

Senator NORRIS. And this commercial agent had as many certificates as there were owners of alfalfa seed in the warehouse?

Mr. WILCOX. I so understand.

Senator NORRIS. And he had power under the arrangements made to call on any or all of those farmers to pay their proportionate share of the loan?

Mr. WILCOX. Yes; but rather the loan was made for six months, as I understand it. I believe that is the length of time for which the loan ran, and by that time the alfalfa seed will all be sold. A part of it will be sold in the fall and during the winter and early in the spring the farmers will all have made up their minds how much alfalfa they are going to plant, and the seed will thereby be sold.

Senator NORRIS. Each man who had alfalfa seed in the warehouse will get the sale price of the seed minus such advance as had been made to him.

Mr. WILCOX. Yes, sir; less such nominal expense as there may be attached to it.

Senator NORRIS. Who handles this, the banker or the commercial agent?

Mr. WILCOX. The commercial agent handles the whole affair.

Senator NORRIS. When the farmer delivers his alfalfa seed at the warehouse he loses control over it.

Mr. WILCOX. Yes, sir; but it is a cooperative affair and the commercial agent handles it.

Senator CAPPER. Your statement is very interesting, both as it affects the alfalfa seed about which you are particularly talking, and the general situation. It seems that they had warehouse facilities there at Salt Lake City, so that they could take advantage of the opportunity which the working out of this plan by the commercial agent afforded them. Are there warehouse facilities generally in the State of Utah sufficient to take care of all farm products?

Mr. WILCOX. I think not.

Senator CAPPER. Isn't that a big phase of this problem?

Mr. WILCOX. Yes, sir; a very important one.

Senator NORRIS. Of course, the warehouse problem as it relates to alfalfa seed is a very small thing as compared with warehouse facilities necessary to house wheat and other farm products.

Mr. WILCOX. Yes, sir.

Senator CAPPER. If we could have warehouse facilities sufficient to take care of the entire production, wouldn't it simplify this matter very much?

Mr. WILCOX. I think it would, decidedly. The original advance or loan would then be made on something that is pretty real and genuine. That paper could then be sold by bankers, and I believe with less danger than the speculative cattle-loan paper can be sold.

Senator CAPPER. Have you thought out any plan by which we could increase the warehouse facilities of the great West?

Mr. WILCOX. I have not. It seems to me that the thing can only be brought about by the process of education. I think the farmers themselves must realize how necessary it is to adopt big-business methods in their own affairs in order to get along in the business world to-day. That is my opinion.

The CHAIRMAN. In suggesting that were you not met with this statement, that the farmers have facilities now in the way of public elevators?

Mr. WILCOX. Yes, sir.

The CHAIRMAN. I do not mean to say that they fill the bill at all, and I know that they do not; from practical experience I know that they do not, for the very reason that the moment the farmer deposits his grain in a public elevator he loses control of it; wheat we will say, goes upon the market whenever the man who owns the public elevator desires to ship it. He may not have bought it, but he has the right under the law of the States everywhere to sell it, and does sell it. That is why I would like for you to go into that phase of the situation as completely as you see fit. I think that the real crux of the whole marketing situation to the farmer is the warehousing.

Senator CAPPER. There is no doubt about that.

Mr. WILCOX. When I was replying to Senator Norris's question, that the individual farmer loses control of his alfalfa seed, I stated that he does, but the situation is different because it went into a public warehouse. Any man who has 4 bushels of alfalfa seed has no right to control it, and perhaps the commercial agent knows much more about handling it than he does.

The CHAIRMAN. That is why I called attention to it. For instance, take the raisin growers on the Pacific coast—they have a marketing organization which controls the situation for them.

Mr. WILCOX. Yes. Take the apple buyer, which is the same problem. They state, if a farmer is willing to sell his apples on the tree to a buyer who comes along and offers him a price, and then that buyer happens to pick them well, and get them on the market under right conditions, so that he makes considerable money on the buy, the farmer has very little that he can say against the system; his argument is all taken away from him, they say, because he himself did not have the nerve to go a little further, to enterprise a little further with that business, if you will, and get together cooperatively and pick those apples, and take the risk of getting the profit made by that apple buyer. And I think in that situation the contention is correct. If some man buys apples on the tree and manipulates the whole business of handling and marketing, the profit is his. The only way the orchardist can take advantage of that profit which the middleman makes, and may have it for himself, if he thinks the middleman is getting more than his share, is to take a further risk and distribute his apples to the consumer.

Senator NORRIS. We must never forget in any plan we go into that the consumer has some rights, and we must never do anything that is unfair to the consumer.

Mr. WILCOX. No, sir.

Senator NORRIS. We have had testimony on prior hearings before this committee where that kind of thing was done. I do not re-

member that it was done with apples, but it has been done in the case of other fruits, where the buyer would go out and buy the crop in the field, and pay for it, and let it stay there and rot in some cases. If there were a combination of buyers in a locality, and there was some product they could make more money on by having the price go up to the sky if they would let some of it spoil, we have been told they have done so. That is just as sinful a program, it seems to me, as can well be imagined.

Mr. WILCOX. Certainly it is.

Senator NORRIS. Even though there are consumers who want the product and who are willing to pay a reasonable price for it, yet they can not get it at a fair price, or are unable to buy because the price has been raised beyond reach.

Mr. WILCOX. Yes, sir; when I was in Columbus, Ohio, two or three weeks ago, there was a situation there in the apple business which was rather interesting. The local apple growers—and they produce some apples there—were getting \$3 a barrel for their apples. Apples were retailing on the market in Columbus for \$15 a barrel—that is, they said they were retailing for \$15 a barrel, but very few apples were moving, because the price was so high that consumers would not buy, and therefore there were very few apples moving at all. The State farm-bureau man got together some retailers, and asked them if they could not by some means reduce the price so the consumer would buy apples in order to start things moving. After considering the situation awhile they agreed among themselves—that is, all of the dealers who come in between the orchardist and the consumer—to reduce the price of apples to \$8 a barrel. Then apples immediately began to move.

Senator NORRIS. I presume that was a combination of buyers there?

Mr. WILCOX. Yes; but the spread was perfectly unjustifiable.

Senator NORRIS. Certainly.

Mr. WILCOX. There was no reason for such a large spread as that.

Senator NORRIS. Probably those same apples a thousand miles from where they were grown would be selling at a much lower price than right there.

Mr. WILCOX. Yes, sir.

Senator NORRIS. I do not want to bring into your testimony too much of my own statement, but it seems to me an instance with which I had experience will well illustrate this situation: Several years ago I was going out to the Pacific coast to speak out West at several places. The day I left my home in Nebraska I walked down the street and saw in the window of a grocery store a box of apples labeled on the outside "Wenatchee apples." I knew I was going to get into the Wenatchee country in a few weeks, and I went in and bought some of those apples. I told the groceryman, "I want two apples to eat." He sold me two out of the box, beautiful apples, for 5 cents apiece.

In due time, in the course of a couple weeks, I got into Spokane. There I saw the same box in a store window. I thought I would buy a couple more. I was going to leave Spokane either that day or the next to go to Wenatchee, only a short distance from the place where the apples were grown. I went into a store at Spokane and told the man, "I want to buy two of these Wenatchee apples." He sold them to me and I paid the price, 10 cents apiece. The next day I was in

Wenatchee. There I saw the same apples; they were not in a box, so I could not say the box was the same, but the apples were the same. I saw them in a store window, and I went in and said to the dealer, "I want to buy two of these apples to eat." He sold me two, and charged me 25 cents for them—a mile probably or three-quarters of a mile from the place where the apples were grown. I said to him, "If I went out to the country, now, and bought them from the orchardist, off the tree, I suppose he would charge me 25 cents apiece for them." I merely state this as an illustration of the situation—the farther I got away from where the apples were grown the cheaper they were sold.

Senator CAPPER. Who do you think is responsible for that situation?

Senator NORRIS. I do not know. I have not solved that problem, but I know what I had to pay for the apples at these three places, and I know it is not right. And I further know that in, perhaps, modified degree that is true of almost everything else produced.

Mr. WILCOX. The prune growers of Oregon have what they call the "Washington Growers' Cooperative Association, I think it is, with headquarters at Salem, organized along the line I spoke of in the case of alfalfa seed in Utah. When I was there two weeks ago they told me they had borrowed a million dollars from Portland bankers to hold the prune crop and to make advances to the growers, because just now prunes are not selling at all, although they are going to be needed later. They considered that the prune industry ought to be preserved, and those bankers, according to the information I got, saw that the proposition was on the square and that it was fair to everybody concerned. Yet they had the same situation there, with the prunes in storage warehouses of this cooperative organization, and having very little salable value at the present, because they could hardly be sold at any figure, and yet on a dining car as I left the town I found that four prunes were actually on the bill of fare at 40 cents.

I do not think there is much danger to the consumer from organizations of farmers who undertake to control and hold their products until the time when they may be sold, for the reason that the organization and development of big interests rather steadies the men in the business; there are fewer excitable and irresponsible men who have control of it at this time. It makes them feel more responsible; and, as a matter of fact, it more evenly spreads the farming business, the product of the farm, from the soil over to the consumer, so that everybody can understand he is responsible for prices, and he understands his responsibility if prices are apparently too high. There are fewer people directly concerned in the handling of the products.

There is this feeling as I have found it throughout the West and that I think bears on the proposition you have in mind, at least it does in my opinion: That whenever big sums of money are raised for credit there is a feeling that, after all, too much of that money is likely to be loaned to the chattel mortgage man, and that the actual farmer, with the gilt-edge security of farm and feed, may be left out. He wonders if he is going to be properly considered.

Senator CAPPER. Isn't there a feeling that a large part of that money goes to the middleman, the broker, and speculator, the fellow

who is going to take toll off the farmer's product? I find that feeling to a very considerable extent out in my country.

Mr. WILCOX. I feel that there is the belief that we must as a nation be responsible for that situation. When farmers grow hay and corn and come to Utah and Kansas City expecting to buy these cattle that are dumped on the market and put this feed into them—and, gentlemen, a man would have fainted a year ago if he had thought of \$6 hay—that opportunity is withheld under conditions where any man would take the financial risk. For instance, I found one man who had a farm that he could sell for \$80,000, and with feed enough to feed 80 or 100 head of cattle, and without one cent's indebtedness on the farm, and that man was without the ability to borrow \$100 of real money.

Senator NORRIS. I think that is true.

Mr. WILCOX. On the other hand, there have been men who had nothing but a chattel mortgage who got away with borrowing a lot of money, which fact not only prevented men as I have mentioned from getting money to produce cattle for the benefit of all of us, but had a tendency to give a black eye to the feeding business, because when that speculator, or man who gives the chattel mortgage, fails the bankers suffer and others suffer, and we hear that the cattle business is a bad game. Yet when the feeding business is conducted by real farmers and others I might mention I think it is not a bad proposition.

In the State of Kansas, or rather take the fat stock that comes to the Kansas City market in the shape of finished beef cattle, and statistics show that 70 per cent of those finished animals are fed and sent to market by farmers who do not handle more than four carloads, we will say 100 cattle, a year. It is the small man that in the aggregate really gives us the cattle which is turned into food for the consumer. But just now he is caught and has not the money to handle the cattle and fatten them, and he is the man who ought to have it.

Senator NORRIS. But that small man is not feeding cattle now?

Mr. WILCOX. No, sir.

Senator NORRIS. He has the farm on which to feed them, and he has the feed, both hay and corn, to feed them, but he has not the cattle to feed and no way to get them?

Mr. WILCOX. No. In whatever financial arrangements are made it seems to me the farmer must take a big step in advance of old-time conditions by getting the proper kind of leaders to present these matters properly to the bankers; and some arrangement must be made ultimately to take care of the farmer who has some security rather than the chattel mortgage giver.

Senator HARRISON. The fault is really with the banking interests in some localities?

Mr. WILCOX. Yes, sir.

Senator HARRISON. In some localities the bankers realize the importance of following one policy and in others they do not follow it?

Mr. WILCOX. I think so.

Senator NORRIS. I think there is a pretty general understanding about the conditions existing, but I want to know about a remedy. We would like to do something to help the situation.

Mr. WILCOX. Everywhere I have been on this trip, and I have heard this statement made over and over again, that any amount of credit,

piled up mountain high, could not really solve the situation until the retail prices come down to start the people to buying so that they can liquidate.

Senator NORRIS. What have you thought about the rehabilitation of the War Finance Board; will that help the situation? Do bankers that you talked with mention that as one of the things they ought to have?

Mr. WILCOX. Well, they are not agreed on that point. One man, a banker, who by the way is a correspondent of the packers and is president of what we would call I suppose a packer bank, said that in his opinion he feared the effect of attempting to bolster credit at the present, that it might benefit speculators too much. He said, "We have been practically forced to take much of this cattle paper, some of which is speculative, against our best judgment, because," he said, "the packers are on the paper and it must be good paper, and therefore we buy it." "But," he said, "now we are in the situation of having loaned too much for that purpose and we are not able to take care of these farmers around here and whom we would like to take care of." This banker said, that as far as he was concerned, he thought if possible the prop ought to be taken out from under all speculators, all speculative loaning, and let the thing fall if it can not stand on its own feet, and attempt to take care of only the strictly farmer, who has something besides the chattel mortgage to start with.

Senator NORRIS. In other words, we ought to have a condition brought about whereby the banks will extend credit to the real producer rather than to the speculator?

Mr. WILCOX. Yes, sir.

Senator NORRIS. What can we do to bring about that condition? I think that would be a remarkably fine thing to do if we can.

Mr. WILCOX. I do not know how that can be brought about by legislation unless it would—well that would be only a recommendation, but personally I think when the big leaders of agricultural interests get together with the banking interests in some way, the presidents of the banking houses, the railroads, and other concerns, if they would get together with the banking interests and settle these matters and adopt general principles, it would work out rather in a constructive way and they would not be in so much trouble as at the present.

Senator NORRIS. There is no doubt but what the small banker, you may call him the local banker, would and does carry out that policy as much as he can, but he gets his money from the big banker in the big cities, and necessarily to a great extent they control his operations. Whenever a call is made on him for money, if he owes them, he must squeeze the farmer in his locality in order to get it.

Mr. WILCOX. Yes.

Senator CAPPER. Don't you think a more elaborate warehouse system would at least aid the grain farmer in securing through the banker more assistance than he has heretofore secured; don't you think it would very greatly aid him?

Mr. WILCOX. Yes, sir.

Senator HARRISON. Do you think to close the exchange would help the situation?

Mr. WILCOX. Well, I have not given much attention to that proposition. There is this feeling among farmers: That when they are forced to let go of their products by reason of having loans called, that somebody else is going to get the benefit of it. Anything that would guarantee them against loss along that line, I think would contribute a whole lot to a proper feeling among the farmers. They say when a man has cattle, stock we will say, or any other product, which he thinks by having to dump upon the open market will greatly lower the market, and he is forced to have his loan called, he wonders if the other fellow is treated the same way, because he says he sees some other fellow who does not have to liquidate, and he wants to know if the other fellow is treated the same way. He wants to know if he is forced by the calling of his loan to dump his product upon the market, will the other fellow get the benefit of it. As far as that goes, anything that will make it clear that the farmer gets a reasonably square deal in the general operation of the financial system will help to stabilize matters very much. I feel sure of this point: The farmers are a very conservative body of men; they are willing to consider these matters from the broadest and most national possible standpoint. I think farmers up to within a few years have been unfortunate many times in the kind of leaders to whom they have listened. There have arisen false prophets for the farmers, men who claimed to be representatives of them, who talked and defended policies which were unsound, and from the standpoint of class prejudice, and which hurt the cause of the farmers and really did not represent the interests of the farmers. Farmers are beginning to select a better quality of leaders, and that is a hopeful thing. They need men who can stand in council with big business men and talk these propositions over from their point, and at last they are getting them.

Mr. Chairman, I think that is all the statement I have to make.

The CHAIRMAN. Any questions, gentlemen of the committee? [A pause without response.] I want to ask you, Mr. Wilcox: You have gone very elaborately into the question of cooperative work, and especially the productive side of farming. I realize that the cooperative system takes into account marketing as well as production. Don't you think that the marketing of farmers' products is as important as the productive side of the question so far as the farmer is concerned?

Mr. WILCOX. It is perhaps more so.

The CHAIRMAN. The farmer goes to work and produces and produces and produces in the interest of the consumer, as Senator Norris has said, and I recognize that there is a good deal of force to his statement; but here is the situation: The farmer goes to work one year and produces at high cost, and he probably gets one-half of what it cost him to produce. It seems to me that the farmer ought to be in a position to at least get the production cost of what he produces. How are we going to get around that question? You are familiar with the laws on our statute books, and I ask, How are we going to get around that situation without it being said that the farmer is violating some particular law, when he is withholding his product in order to get his cost, withholding them from the market temporarily to save a great loss.

Mr. WILCOX. There are a number of purely economic methods without getting into the subject of legislation, methods that are being pushed as a means to accomplish that. There is one interesting phase, that of insurance, which is just being tested out—crop insurance—about which you may possibly have heard something. Two or three insurance companies tried a few years ago out in Montana and failed, because they bet on one territory, and that territory was struck by a terrible drought, and the companies lost too much money.

The CHAIRMAN. That was the productive end of it.

Mr. WILCOX. Yes, sir. But now two fire-insurance companies are writing crop insurance, and they are proceeding on this basis: They attempt to determine what it costs a farmer to produce a normal crop. They set down so much money that he has to expend for seed and so much for the operation of cultivation and so much for harvesting, and labor is put in there and interest on the investment. Say a given crop cost the farmer \$20 an acre, according to their figures. They write him insurance to the effect that if that crop does not bring the farmer \$20 an acre they will make up to him the difference. That is a form of insurance which would, I think, if adopted on the right formula, help to stabilize farming.

The CHAIRMAN. Has any business been transacted on that basis?

Mr. WILCOX. A good deal this year.

Senator HARRISON. How much?

Mr. WILCOX. I do not know how much business they have done. They are chary about giving out the figures, but I understand that a great deal of that insurance was written in the corn belt and in the South.

Senator HARRISON. Is this the first year they have tried it?

Mr. WILCOX. It was tried last year to some extent, but this year more extensively.

Senator HARRISON. There are two such companies doing that business?

Mr. WILCOX. Yes, sir.

Senator HARRISON. What is their capitalization?

Mr. WILCOX. Well, I do not know, but I would say that one is the Hartford Fire Insurance Co. and the other is the Home Insurance Co., of New York. They are simply going into this as a new field of insurance. I think that meets the farmer's needs very distinctly—a real crop insurance. It includes insurance against loss by fire—and everything I think except hail, and I understand one of them proposes to put everything in, frost, fire, drought, hail; that is, it proposes just to insure the farmer so that if for any reason whatever his crop fails to come up to cost of production the owner is insured.

The CHAIRMAN. They really insure the owner cost of production?

Mr. WILCOX. Yes, sir.

Senator HARRISON. What are their rates? I think the farmer has more uncertainty to go up against than any other class of people, and I would say that, among other things, by reason of the fact that this proposition has not been inaugurated sooner.

Mr. WILCOX. Yes; his game is a gambling game, and it is a gingerly proceeding.

Senator HARRISON. The insurance rates are high, I suppose?

Mr. WILCOX. Yes, sir; pretty high. I am going to look more fully into that matter.

Senator HARRISON. You can not approximate the amount of insurance they have carried?

Mr. WILCOX. No; I was talking to an insurance man in the Department of Agriculture, and he said they were acting pretty gingerly about giving out data. They are working it out now. I think it is a very hopeful line of insurance, as offering a relief from the risks of farming.

The CHAIRMAN. In your travels did you find that many movements for farm organizations were rather political than economic?

Mr. WILCOX. Yes; some of them are. In my observations the one which most nearly represents the voice of the farmer over the United States is the American Farm Bureau Federation. Of course, there has always been this controversy as to who speaks the voice of the farmer; where does the farmer speak authoritatively? Some-time or other, I think, he must recognize more fully that some one organization must speak for him along lines that are semipolitical. But everywhere west of the Mississippi River I heard regrets expressed that any farmers' organization should take action that looked too much like a class idea; that is, let us get together on this, and let us work for the whole community, but let us farmers organize sufficiently so that our voice will be heard authoritatively, and not in antagonism to others. The American Farm Bureau Federation is attempting to say what the policies of agriculture are for the whole Nation, why farmers must have this or that in order that agriculture can take care of itself properly; and, so far as I can see, they have not shown a tendency to get into politics in the bad sense of that word. When a whole group, or one entire occupation, expresses what they think they need it borders, of course, on politics. But as a matter of fact, the statements that they make and the arguments that they present are more and more strictly economic than political.

The CHAIRMAN. That is rather a new organization?

Mr. WILCOX. Yes, sir.

The CHAIRMAN. Any further questions? [After a pause.] The committee is very much obliged to you, Dr. Wilcox, for appearing before us, and if there is nothing further we will excuse you.

Mr. WILCOX. I thank you.

The CHAIRMAN. Gentlemen of the committee, we have two gentlemen who would like to be heard this morning, but we only have about 10 minutes until the Senate convenes, and there is important legislation before the Senate for us to consider. What is the pleasure of the committee?

Mr. BENJAMIN C. MARSH. Mr. Chairman, I would like to put in at this time a condensed statement.

The CHAIRMAN. The committee will not be able to hear you to-day, Mr. Marsh, but we can hear you and the other gentleman on Monday.

Mr. MARSH. Very well, I could make a more extended statement then, but if there is no objection I would like to put this statement in now.

**STATEMENT OF MR. BENJAMIN C. MARSH, SECRETARY AND
DIRECTOR OF LEGISLATION, FARMERS' NATIONAL COUNCIL,
WASHINGTON, D. C.**

Mr. MARSH. At this time I would like to make the following recommendations, and then to follow these up by a more extended statement on Monday:

(1) Immediate extension of short time Government credit to farmers on adequate security to enable farmers to market their crops in an orderly way throughout the year to meet consumption demands.

(2) The creation by Congress of a corporation similar to the United States Grain Corporation to purchase the wheat crop at the bulk-line cost of production, and to retain control thereof and regulate elevator and milling companies, so as to prevent profiteering until it is ready as flour in the hands of bakers and housewives for the domestic consumer. The baking companies in each city should be regulated by the city authorities working in harmony with and under the advice of the grain corporation. This corporation should be directed by a board representing organized farmers, organized labor, women's organizations, and the unorganized public. Congress should appropriate the necessary revolving fund.

(3) The reduction of the enormous contemplated appropriations for the Army and Navy aggregating \$1,633,991,334 to one-half that amount, the other half to be used to finance the export of surplus wheat, potatoes, cotton, wool, meat, and meat products, dairy and dairy products, and tobacco to Europe, our Government to assume the risks, and to secure payment therefor, as soon as the resumption of industry and commerce in those countries permits. Only a small appropriation for the creation of a corporation to handle wheat and to export surpluses of our crops will be necessary and this plan will stabilize farm prices, enable farmers to purchase necessary manufactured products, and tend to restore courage and hence order in Europe. The fact that we have a large surplus of these farm staples for export raises the question whether a tariff thereon would help our farmers and might not lead to serious retaliatory measures.

(4) The Kenyon-Anderson bill to control the meat-packing industry must be promptly enacted by Congress.

(5) The railroads must be immediately restored to unified Government operation, and freight, express, and milk rates reduced to the rates in force when the roads were returned. The roads should be paid a reasonable rental, much less than during the war, and if any deficit results it should be met by appropriation from the public treasury.

The CHAIRMAN. I believe that Mr. Wilson merely wanted to put in an explanation of something that was said the other day, and the committee will grant him a few minutes for that purpose.

STATEMENT OF MR. J. M. WILSON, OF McKINLEY, WYO.

Mr. WILSON. Mr. Chairman and gentlemen of the committee, I saw Senator McCumber the other day and made to him the statement that I had made here to your committee, that some sheep had

sold at Chicago for 34 cents a head, that is net; and he looked like he doubted it very much and finally he said, "Will you kindly get me the facts connected with that sale?" I told him I would, and I wired to the house that sold the sheep, and this is the answer, which bears considerably on the questions asked here to-day:

UNION STOCK YARDS, ILL., December 9, 1920.

J. M. WILSON,

Care Raleigh Hotel, Washington, D. C.

Nineteen hundred eighty-six ewes sold to Wilson & Co., at \$2.10 per hundred-weight; average, 93 pounds; gross proceeds, including 23 dead sheep, \$3,878.11; transportation expenses, including freight, switching, feed charges in transit, and war tax, \$2,804.12; yardage, \$159.84; fire insurance, 70 cents; commission, \$240; attendants' charge, \$20.

CLAY ROBINSON & Co.

As anybody knows who has been in the live-stock business, Clay Robinson & Co. is one of the representative firms, not only at Chicago but at other places. The entire receipts from that trainload of sheep, probably eight cars of 250 head to the car, were \$3,878.11, and the charges amounted to \$3,224.66, which left \$653.45 as the net price for 2,000 head of sheep—there were in fact 2,009 head.

The CHAIRMAN. How much does that figure out per head?

Mr. WILSON. I told you 34 cents, but I was mistaken; it was 32.24 cents. In other words, there was added to the price the producer received about 500 per cent additional. For every dollar the producer received there was \$5 additional to the value asked the consumer, or practically 500 per cent. It does not seem possible that such conditions could exist in the marketing of the products of these sheep.

Senator NORRIS. About what did it cost the owner to produce those sheep for which he got 32 cents apiece?

Mr. WILSON. Those sheep a year ago would have sold for from \$15 to \$20 a head, and those sheep ought not to have been bought by a packer but ought to have been bought by a feeder. They were a class of sheep that fed good.

The CHAIRMAN. Could you give a little more direct answer to Senator Norris's question as to the cost of producing?

Mr. WILSON. I would say that that cost would vary according to the times. Last year sheep on the average throughout the West cost \$6 a head alone, but the sheep could not be raised under the best conditions for less than \$4 a head. And they were fair-size sheep, because with the shrink and everything they weighed 93 pounds. But there was added 500 per cent to the cost that the consumer paid.

Senator NORRIS. And the producer did not get cost of production, by any means.

Mr. WILSON. No, sir; nowhere like it.

The CHAIRMAN. The committee will now adjourn until Monday morning at 10.30 o'clock.

(Thereupon, at 11 o'clock and 55 minutes a. m. the committee adjourned until Monday, December 13, 1920, at 10.30 o'clock a. m.)

REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

MONDAY, DECEMBER 13, 1920.

CONGRESS OF THE UNITED STATES,
COMMITTEE ON AGRICULTURE,
Washington, D. C.

The committee met at 10.30 o'clock a. m. on call of the chairman, Senator Asle J. Gronna presiding.

Present: Senators Gronna (chairman), Norris, Smith of South Carolina, Ransdell, and Harrison.

The CHAIRMAN. There are two gentlemen here who have indicated a desire to be heard: Mr. William H. Lyon, of Sioux Falls, S. Dak., and Mr. Benjamin C. Marsh. We will first hear Mr. Lyon.

STATEMENT OF MR. WILLIAM H. LYON, MEMBER OF SOUTH DAKOTA LEGISLATURE, SIOUX FALLS, S. DAK.

The CHAIRMAN. Will you kindly give your full name, your residence, and your occupation to the stenographer, Mr. Lyon?

Mr. LYON. My name is William H. Lyon; I am a lawyer, and have been a member of the South Dakota Legislature for the last two sessions, and introduced the memorial asking Congress to stabilize the price of staple farm products, which was unanimously adopted by our House of Representatives at the special session of our State legislature last June.

The CHAIRMAN. You may proceed in your own way.

Mr. LYON. Gentlemen, a peculiar situation confronts the United States to-day. We can produce everything that we absolutely need for our own requirements, except rubber, tea, coffee, and hemp.

Senator NORRIS. And sugar; do you not want that in?

Mr. LYON. We can produce all the sugar we require.

We have to-day three-fourths of all the gold in the world. We are a creditor nation. Europe owes us over \$10,000,000,000 of public indebtedness, upon which it can not pay the interest; and over three and a half billions of private indebtedness.

Our farmers have raised a crop that is bursting their granaries; we need hundreds of thousands of additional houses for our people; thousands of miles of streets and highways must be constructed. The whole railroad system of this country needs rebuilding, and at least \$1,000,000,000 should be spent each year in railroad reconstruction. There is no limit to the amount of work necessary to

be done in this country, nor to the amount of our available resources. And yet, incredible as it may seem, there are millions of our people out of employment and the agricultural, industrial, and business world is trembling upon the brink of bankruptcy.

Our farmers, in response to the propaganda for "greater production," insistently urged by accredited representatives of the Government, did everything possible to raise a maximum crop and produced more than sufficient for our own requirements. And yet it has proven a calamity to our farmers and to the business and industrial world. If they had loafed upon their jobs, and had worked 8 hours a day instead of 16, and raised only one-half or two-thirds of a crop, it would have been worth a great deal more than the entire crop which they did produce.

The potato crop of the North was not worth at digging time the actual cost of the seed planted.

As you all know, it takes 12 bushels of potatoes to plant an acre, and they were worth \$5 to \$6 per bushel at planting time, and the potatoes, when dug by our farmers, did not average 50 cents a bushel and yield only about 110 bushels per acre.

Our farmers planted flax worth \$5 to \$6 a bushel, and the crop they are marketing is bringing them approximately \$2 per bushel.

The CHAIRMAN. Did it not work this way, Mr. Lyon: The crops would have been worth more with a smaller production, and the expenses would have been proportionately that much less?

Mr. LYON. Very much less, indeed, in every way.

Oats in the fall of 1919 were sold in our country for from 50 to 60 cents a bushel. Last spring, when these oats were planted for the 1920 crop, they were worth from \$1 to \$1.10 a bushel. The speculators who were fortunate enough to buy those oats a year ago made more by holding them over those few months than the farmer received for his entire crop. Probably I do not need to tell you about the present prices of agricultural products. But we have been getting as low as 30 cents per bushel for oats, and in the neighborhood of 40 cents a bushel, or even less, for corn; and you all know about the price of wheat.

Senator RANDELL. What do you get on the farm for wheat?

Mr. LYON. We raise comparatively little wheat in our section. Senator Gronna can give you more accurate information by far than I.

The CHAIRMAN. They have been getting all the way from \$1.15 up to possibly \$145.

Senator RANDELL. According to the transportation facilities, I presume.

The CHAIRMAN. Yes.

Mr. LYON. Let me say a word or two with reference to some proposed remedies. Some of our farmers seem to think that their troubles are caused by the board of trade. But this board of trade is a barometer and not the weather; it is simply a place for the registration of the sales and purchases made by the public and the transactions are recorded upon the "board" which is supposed to indicate the "market." If, when we come to dump our crops into market, we permitted no one to buy except those who actually wanted to use them, the buyers would get them at their own price and the farmers would receive even less than they do to-day. It is these "gamblers"

and "speculators," as you call them, who say to themselves: "That grain is selling too cheap. It will be worth more money before another crop comes in and I will buy a future "option" on as many bushels as I dare." Regrettable as it is they are the people who help keep prices up as much even as they are to-day.

In my judgment, under present conditions, a complete abolishment of the board of trade would be futile, and would be detrimental rather than beneficial to agriculture.

The CHAIRMAN. Do you think, Mr. Lyons, that where a hedge is made—that is, where a sale is made—that there ought to be a law compelling actual delivery; so that the buyer would be compelled to receive a portion or all of it or receive as much as he could use or could get, but in the whole transaction do you think that we would benefit by enacting a law which would compel the man who sold to deliver to the buyer and the buyer who bought to receive what he bought from the seller? Would not that eliminate all this unholy speculation that people war against?

Mr. LYON. I am somewhat doubtful about it, and I will leave that for wiser heads than mine. But the remedy which I propose will, if adopted, automatically eliminate speculation upon the board of trade below the minimum price which we ask the Government to guarantee.

The CHAIRMAN. Do you want the committee to understand that you indorse the wide trading in a commodity, and especially one which is a necessity to life, like wheat or any other food products; that any man can go in at any time and either buy or sell any quantity they see fit, regardless of whether they have any intention of making delivery or not?

Mr. LYON. I think it is a disgrace to a civilized nation to permit the price of food to be fixed or manipulated by speculation and regardless of the cost of production.

The CHAIRMAN. That is being done through speculation very often. It takes a whole year to grow a crop of wheat; there can not be production overnight nor can there be a reduction in the quantity on hand overnight; and yet from the close of the market on one day until the opening of the market on the following day there may be a difference of 20 cents a bushel. That must be speculation?

Mr. LYON. It is. That subject will come up a little later in my statement.

The CHAIRMAN. Pardon me for interrupting you.

Mr. LYON. I thank you for doing so.

The CHAIRMAN. I just wanted to know if you indorse the scheme of permitting a man who never intends to deliver anything that he sells, but who simply goes in for making money out of the transaction. That must have an important bearing on the price of that product.

Mr. LYON. There are two angles to this question. If you prohibit one from selling grain who is not capable of delivering it, you also must necessarily prohibit any one from buying it who does not expect to receive it.

The CHAIRMAN. Yes.

Mr. LYON. As I said before, it is the speculator who gambles on this product, who says it is too cheap, and that he will therefore buy an option for future delivery; who, under present conditions, helps keep prices from dropping even lower than they have been. Un-

fortunately speculation in futures seems to be necessary under present conditions, but will be automatically eliminated under the plan which I am about to bring to your attention.

The CHAIRMAN. Ought there not to be a difference between the sale or the purchases by men who go into that transaction for speculative purposes and the men who are in legitimate business? The trade knows how much wheat there is raised in the country, approximately, and they know how much is needed. I am in accord with you so far as it applies in reference to a miller—if he sells 10,000 barrels of flour he ought to have the right to go and buy wheat against that, because that is the only way he can protect himself. But that is a legitimate transaction and nobody suffers from it, because that much wheat is taken out of the market. But ought there not to be a difference between a man who simply buys for speculative purposes and a man who makes these legitimate transactions, and can it not be easily done in this way: We will say that the man who buys or sells grain for manufacture shall not be taxed, but the man who does not deliver shall be taxed? We should not tax a buyer or seller on what he actually sells and delivers, but the man who does not deliver and who does not intend to deliver could be taxed.

Senator RANSDELL. Mr. Lyon says he has a scheme which eliminates this entirely. I would like to hear that plan before we discuss it. I am intensely interested. I have my views about these exchanges, and I would like to hear his scheme before we go into the side issues.

The CHAIRMAN. Very well.

Mr. LYON. Another plan suggested is the extension of credits to our farmers to carry over their indebtedness, and some have even gone to the extent of asking for the Government to take up farmers' notes.

In addressing a meeting of the members of the Farm Bureau in our city a few days ago, I said to them, "What you farmers want is not an extension of credit. You have already had more credit than was good for you, and that is one of your troubles to-day," and the statement received enthusiastic applause. What the farmers of this country need is a fair price for their products that will repay at least the cost of production. If they receive that price, they will pay their notes at the banks and buy the goods the merchants are wild to sell, and the wheels of business and industry will again start to move.

Senator RANSDELL. You are absolutely right in that. Tell us how to get there now and you have solved the whole thing.

Mr. LYON. The Nonpartisan League Organization, with which our chairman is more familiar than myself, wishes to solve this matter by providing for State-owned terminal elevators. But the trouble with that plan is that it does nothing toward stabilizing the prices of the contents of those elevators. The grain in those State-terminal elevators, if any of them are ever built, will be your grain, my grain, and other people's grain, which is subject to manipulation and fluctuation and speculation just the same as the grain that is in private elevators. So that remedy does not reach the root of the trouble.

There are many representatives of the farmers who believe there ought to be some general, cooperative marketing associations which would control these prices. But that, to my mind, is also imprac-

licable. If they could, by any possibility, absolutely control prices, they would, I fear, be just as big profiteers as there are in other lines of industry. If they could have a "cinch" like the raisin growers of California, and the fruit growers of Florida and the Pacific coast, where they could corral the entire product, they doubtless might be able to name their own price. But I do not think that farmers should be permitted to dictate their own price for food products any more than I think any other producers should be permitted to absolutely dictate the price of their products regardless of the cost of production. The result of this attempted cooperative plan of marketing and withholding of wool and grain crops from market, has in the judgment of wiser men than myself proven detrimental to the interests of the actual producers.

The farmers of Texas and Oklahoma undertook to hold their wheat for \$3 per bushel, claiming that it cost them \$2.77 to produce it; and since they inaugurated that holding proposition, you see what has happened to wheat.

The wool raisers of the country undertook to gather together a considerable portion of the 1920 wool crop and hold for higher prices. In our country when they started in on that plan wool was worth approximately between 20 and 25 cents a pound, and to-day local buyers will not pay even 15 cents a pound. The last quotation I saw in St. Louis wool market was about 20 cents for our grade of wool.

Senator SMITH of South Carolina. You do not intend to say that that is cause and effect?

Mr. LYON. I am not sure as to that. But, at any rate, it has not solved the question.

Senator SMITH of South Carolina. I would not like for your statement unchallenged to go into the record. I am a member of the committee sitting here, and I think you would have to present us with a statement showing what wool was held in that way, what percentage was imported from other countries, or what percentage was not in the so-called pool, and what effect it had on the market, plus certain other features. It is too complex to let that go in that way.

Mr. LYON. I agree with the Senator that there are other matters which come in for consideration in discussing the results of the wool and grain pools and particularly the all-important facts that they did not control the entire product and had no control whatever over imports.

It is also urged that we form corporations to help export our farm products, and there is one now being organized with \$100,000,000 capital, and with total anticipated assets exceeding \$1,000,000,000 to assist in financing the export trade.

It seems to have been generally overlooked that with the single exception of cotton we have a very insignificant surplus of farm products of the present year to export. The total wheat crop of 1920 was 750,648,000 bushels. Our carry over from the 1919 crop was 151,000,000, making a total of 901,648,000 bushels available. Our net exports from July 1 to November 1 of this year were 132,123,000 bushels, leaving a balance, as of November 1, amounting to 769,525,000 bushels for all purposes.

One year's requirements for food and seed are estimated by the Department of Agriculture to be from 625,000,000 to 650,000,000

bushels. Taking the latter figure, leaves a net balance available as of November 1 of 19,525,000 bushels.

Senator RANSELL. Available for exports you mean?

Mr. LYON. Available for export and carry over.

My estimate of net exports from November 1 up until December 31 of this year is at least 50,000,000 bushels, which is considerably less than our net exports for any two months since July 1. I will give you the figures for each month, if you desire them, but they are approximately from 27,000,000 to 30,000,000 bushels a month. That will leave a net estimated balance on hand above domestic requirements on the 1st day of next January of 69,528,000 bushels.

The average carry over of wheat for years past has been approximately 75,000,000 bushels, but in order to insure safety against a possible crop shortage at least 100,000,000 bushels of wheat—less than two months' requirements—should be carried over from one year's crop to the next, in order to be assured of even a moderate bread supply. If my estimate of net exportations for November and December should prove correct, we will face an actual shortage of five and one-half million bushels on the 1st day of next January below the usual carry over of 75,000,000 bushels as a margin of safety.

The situation, therefore, is that if we permit the continued exportation of wheat we may soon have to go to Canada or Australia or Argentina in order to buy wheat for our requirements.

The CHAIRMAN. Julius Barnes gave us some of these figures in regard to the carry over, and he stated substantially the same as you do now, that it was dangerous to get below 75,000,000. Of course, we all realize that that carry over is more or less an estimate; it is altogether an estimate.

Mr. LYON. It is from the Department of Agriculture.

The CHAIRMAN. It may not be half of that amount, because there is always a great shrinkage.

I think you are substantially correct, because I have been able to analyze and study these tables. If it were not for the wheat that has been imported from foreign nations we would have very little wheat to export. I think we have exported more than we ought to right now.

Mr. LYON. The chairman is absolutely correct, in my judgment.

Senator NORRIS. According to your idea, we will have a shortage?

Mr. LYON. We will face a shortage, or rather an inadequate margin of safety in the carry over.

Senator NORRIS. Are you going to explain, then, why the price has gone down so much?

Mr. LYON. I am not a "market sharp," but I am stating what I have ascertained to be the present condition of our wheat supply.

Senator NORRIS. It does not take any kind of a sharp to find out what the market price of wheat is now. We know it is away down below the cost of production, and if we are faced with a shortage and have got to bring some wheat in from Argentina and Canada to live on, I should think that would reflect itself in the present price of wheat.

Mr. LYON. In my judgment, it will within a very short time.

Senator NORRIS. Then it follows that all the farmer has to do is to hold his wheat awhile?

Mr. LYON. No doubt that will help, if they can only do it.

Senator NORRIS. Of course. They have to have some money to do that.

Mr. LYON. But the Federal Reserve Board are insisting that the farmers must sell their crops in order to pay their notes. Under present conditions, the tenants whose needs are greatest are obliged to sell for the lowest price; the fortunate farmers, who can hold their crops over until shortly before the new crop comes in, are usually able to get the long price, and they are the ones who need the money least.

I wish to also to call your attention to the matter of oats. Our net export of oats for the year ending June 30, 1920, was 37,392,000 bushels. Our average exports for previous years were as follows: In 1918, 109,000,000 bushels; in 1917, 125,000,000 bushels; and in 1916, 95,000,000 bushels.

Senator HARRISON. How much was it before the war started? Have you figures on that?

Mr. LYON. No, Senator. But they are in the yearbook. It was very much less before the war. I can give you the exact figures in a moment, if you desire.

Our average annual exports of corn from 1909 to 1913 were 45,000,000 bushels. In 1917 the preliminary estimate of our corn exports was 57,000,000 bushels, and in 1918 it was 47,000,000 bushels.

I am mentioning those facts to show how small an amount of these crops we export, and how easy it will be for the Government to do the financing necessary in adopting the plan which I am bringing to your attention.

Mr. Julius H. Barnes in his address before the "committee of seventeen," on November 5 of the present year, makes this statement:

As to the per cent of exports to our grain production, the four prewar years' exports of all grains averaged 3.8 per cent of the total crop. During the five war years export, exports averaged $8\frac{1}{2}$ per cent of the crop. During the last cereal year just completed our exports averaged $6\frac{1}{2}$ per cent of the total crop.

Senator HARRISON. That includes all grain?

Mr. LYON. I assume it does. I want also to quote Mr. Barnes as to how these prices are fixed. [Reading:]

Broadly speaking, it may be accepted as axiomatic that the price for an entire crop will be the price at which the surplus of that crop finds its market. That is, both the price on the export surplus and the price on the entire portion of that crop marketed at home will be the price determined at the market in which that export surplus is sold, less the cost of delivery. That is true whether the export surplus is 50 per cent or 10 per cent of the crop, except that the smaller surplus may be marketed earlier in the crop year and the home marketing thereafter, somewhat independent of the final export market.

The importance of this to the grain grower of America in this particular year—1920—is appreciated when it is stated that all of the five principal grain crops—wheat, corn, oats, rye, and barley—have been harvested in sufficient quantities that each of these crops will more than provide any possible domestic consumption, and therefore in the normal operation of the law of supply and demand each of these crops, generally speaking, will seek a price level which reflects an overseas consuming market, less costs of delivery.

In other words, the 3.8 per cent of these grain crops which we sent abroad to meet the general trade price level of the world in competition with the products of the Hindus and peons and the

peasants of Europe, and the cheaper labor and the cheaper lands of other countries, that little, dinkey surplus automatically fixes approximately the price of the 96.2 per cent of that crop which we consume at home, and regardless of the cost of production.

The CHAIRMAN. You would be right in that statement if you took one crop by itself. But the trouble with your statement is this: You are taking the corn crop, consisting of more than 3,000,000,000 bushels, and you are linking it up with a crop which is, at least this year, only about the amount that we can consume here at home. That is hardly a fair proposition. If you will take wheat alone, your statement will not stand.

Mr. LYON. Why will it not?

The CHAIRMAN. It will not stand for the reason that the people of our own country will consume nearly the entire crop.

Mr. LYON. If we export the surplus early in the crop year, then, as soon as that is disposed of the domestic price will rise, as Mr. Barnes indicates here.

The CHAIRMAN. You are then forgetting also to say that we are going to protect this particular crop for our own people.

Mr. LYON. I am going to come to that, Senator, if you will pardon me; I am just a little ahead of my story.

The CHAIRMAN. Pardon me for interrupting, but just to help you, I did not want you to convey the idea that you could take the entire crop of all these five cereals and deal with them just the same as if you were dealing with one, because that can not be done.

Mr. LYON. I think that I will clarify that before I get through, if you will permit me.

The CHAIRMAN. Yes.

Mr. LYON. As I said before, this little 3.8 per cent of a surplus automatically fixes the approximate price of the balance of the crop consumed at home and regardless of the cost of production. If there ever was a case of the "tail wagging the dog," is not that it? We can readily understand that if England would say: "We will pay you a certain specified price for all grain that you export to Liverpool," that this would automatically bring up to that level (less transportation charges) the price of all the remaining portion of the crop consumed at home and without regard to the quantity exported—if any.

But it seems difficult for some people to see how the United States, with the greatest resources of any country on earth, can accomplish this very thing by making an equivalent guaranty on this side of the ocean.

In brief, the plan which I bring to your attention is this: To have the National Government guarantee a minimum price for all wheat, flax, and oats of the 1920 crop, delivered at certain terminals in this country, in the month of June, 1921; and for all surplus corn that may be delivered in the month of September, 1921, before the new crop comes in. The proposed bill which I am submitting to your consideration specifies the following minimum prices, viz, \$3 for flax, \$2.25 for wheat, \$1 for corn, and 75 cents for oats—none of which, I am frank to say, are high enough. If the Government guarantees that it will pay these prices for whatever surplus there is left over at the end of the crop year you can readily see its effect upon the markets of this country.

Suppose the farmer brings in his crop and nobody wants to buy it. He can take it to an elevator and get a storage check for it; take that to the bank, and the banker will know that in the month of June, 1921, the Government will pay the guaranteed price for that product, if still in existence, out of which has to be deducted the transportation and carrying charges, and the banker will also deduct interest upon the money in the meantime and pay the farmer the balance, because this is practically an obligation of the Government. But when the month of June next arrives, practically all of this crop has been consumed, and when the specified time arrives, in all probability the Government will have a very slight portion of this crop to pay for. In the case of wheat, it will probably not have a single bushel to pay for, except what it may be necessary to carry over to the next crop as a margin of safety, and I believe that the Government ought to finance these food crops for the mutual advantage of the producer and consumer.

Senator NORRIS. Would it not be necessary, in connection with your plan, if that was adopted, to levy a tariff, or in some other way prohibit the importation absolutely from any foreign country of any of these articles, at the price at which we fixed?

Mr. LYON. Yes, Senator. This proposed bill provides for that. It is very brief.

The CHAIRMAN. You may read it.

Mr. LYON. In this I am arranging to revivify the United States Grain Corporation, which I understand is in a state of "innocuous desuetude," but can be restored to life. I thought that it was a vehicle that we might use for this purpose.

The CHAIRMAN. There are some of us who would like to have you help us forget the Grain Corporation.

Mr. LYON. That is subject to amendment, and any other agency may be utilized.

Senator RANSDELL. Call it by another name?

Mr. LYON. "A rose by any other name would smell as sweet."
[Reading:]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the United States Grain Corporation shall pay for all flax, wheat, corn, and oats stored or sold by the producer thereof subsequent to the passage and approval of this act the sum of \$3 per bushel for flax, \$2.25 per bushel for wheat, and 75 cents per bushel for oats upon delivery thereof during the month of June, 1921, at terminal elevators at Portland, Seattle, Minneapolis, Duluth, Chicago, Buffalo, New York, Galveston, New Orleans, and such other terminals as may be specified by said grain corporation, and the sum of \$1 per bushel for corn delivered in like manner during the month of September, 1921; such prices to be based upon the best grades of such products and proportionate reduction in prices to be made by said corporation for lower merchantable grades.

SEC. 2. That all elevators receiving or storing such products shall be licensed by the United States Grain Corporation, and storage and other charges to be specified and limited by the rules and regulations to be adopted by said corporation.

SEC. 3. That said United States Grain Corporation shall retain or dispose of such surplus crops as it may deem best for the public welfare, and in case the prices of any such products should at any time rise above such guaranteed price, or in case of shortage, either actual or anticipated, said corporation is hereby authorized to import any such products from abroad and dispose of the same to the manufacturers or consumers thereof.

My thought was not to permit inflation above the guaranteed price unless justified by the world's market. (Reading:)

SEC. 4. That all exporters of wheat and flax and products thereof shall be licensed by said corporation, which shall permit exportation thereof only when the supply exceeds the probable domestic requirements.

That is to preserve the proper margin of safety for our own people. (Reading:)

SEC. 5. That said corporation is hereby authorized to borrow of the Federal Reserve Bank the sum of \$250,000,000, or so much thereof as may be necessary, for the purpose of complying with the provisions of this act, at a rate of not to exceed 3 per centum per annum, and shall have the right to loan such portion thereof as it may deem necessary at a rate of not to exceed 6 per centum per annum upon terminal warehouse receipts covering the products specified in section 1 hereof, for the purpose of assisting in carrying and in the final disposition thereof.

SEC. 6. That no flax, wheat, corn, or oats, or products thereof, shall be imported into the United States from and after the passage and approval of this act, except by the said Grain Corporation.

SEC. 7. That all acts and parts of acts in conflict with this act are hereby repealed so far only as they may conflict with this act.

The CHAIRMAN. The members of the committee will now have to go to the Senate, because of certain important matters pending there, and the committee will meet again, subject to call, either this afternoon or to-morrow morning, of which you, Mr. Lyon, will be duly advised.

(Thereupon, at 11.30 a. m., the committee adjourned to meet again at the call of the chairman.)

REVIVING THE ACTIVITIES OF THE WAR FINANCE CORPORATION.

TUESDAY, DECEMBER 14, 1920.

CONGRESS OF THE UNITED STATES,
COMMITTEES ON AGRICULTURE,
Washington, D. C.

The committee met, pursuant to adjournment, in room No. 326, Senate Office Building, at 10.30 o'clock a. m., Senator Asle J. Gronna presiding.

Present: Senators Gronna (chairman), Kenyon, Ransdell, Norris, Keyes, Smith of Georgia, Smith of South Carolina, Capper, and McNary.

The CHAIRMAN. The committee will be in order. Mr. Lyon will proceed with his statement.

STATEMENT OF MR. WILLIAM H. LYON, OF SIOUX FALLS, S. DAK.— Resumed.

Mr. LYON. Mr. Chairman and Senators, I will endeavor to be very brief. I called your attention yesterday to the fact that our average annual exportations of corn did not exceed 50,000,000 of bushels, and our average exportations of oats have not for a number of years exceeded 100,000,000 bushels annually, and also called attention to the fact that if exports of wheat continues at the present rate that by the 1st of January we will not have within at least 5,000,000 or 6,000,000 of bushels—the amount of a safe carry over—of 75,000,000 bushels until the new crop comes in.

I wish also to call attention to the case of flax. Last year our production of flax was 10,736,000 bushels, and our imports for the year ending June 30, 1919, were approximately 8,000,000 bushels. The average annual importation of flax for a number of previous years had been from 12,000,000 to 13,000,000 bushels.

I wish now to again call attention to the plan for a stabilization of the prices of these four products, wheat, oats, flax, and corn, for the present year, as indicated in the bill, to which reference was made yesterday. It provides that the National Government shall guarantee a minimum price of \$3 per bushel for flax; \$2.25 per bushel for wheat; \$1 per bushel for corn; and 75 cents per bushel for oats delivered at certain central terminals during the month of June of the coming year—that is, the Government is to buy at that price whatever surplus remains at that time. The time for corn is fixed in

September, which is just before the coming in of the new Southern crop.

Yesterday, while some of you gentlemen were absent, I referred to the statement made by Mr. Julius H. Barnes, in his address to the "committee of 17," at Chicago, on November 5, to the effect that for the four years prior to the war our average annual exportations of grain crops amounted to only 3.8 per cent of the crop, and also to his further statement that when a portion of a crop is exported, that, as a general proposition, the price which this surplus portion brought in the foreign market, fixed approximately the prices of the remainder of the crop consumed at home.

The CHAIRMAN. I want the record to show that I dissent, as one citizen, from that opinion. I do not agree with Mr. Barnes in his opinion on that—that Europe fixes the prices. That is an absolute fallacy that has been disproved, I think, by congressional investigations. That idea, that Liverpool fixes the prices, is not correct. Of course, we are glad to have your statement, but you are using now Mr. Barnes's statement, and I am disputing that statement. I am not disputing your statement at all; but I am disagreeing with Mr. Julius Barnes that Liverpool fixes the prices. It does not do any such thing.

Mr. LYON. I wish to call the attention of the committee to the following paragraph in the excellent address delivered by Governor W. P. G. Harding, of the Federal Reserve Board, to the Farm Federation Bureau, at Indianapolis, Ind., last week. He says:

While it is true that the greater volume of our staple crops and the larger part of our manufactured goods are consumed at home, the maintenance of our export trade is of the greatest importance to farmers and manufacturers, for ability to dispose of surplus products abroad is a potent factor in the determination of the prices at which these goods are sold at home.

From this it seems evident that Governor Harding shares the views and opinions of the big financiers of the country that the "tail should wag the dog"; that the little insignificant surplus that we export should govern the price of what we consume at home regardless of the cost of production.

Senator RANDELL. Hasn't that been almost axiomatic in the teachings of all political economists, whether it is true or not; do not practically all political economists agree that the prices abroad very largely govern the prices at home?

Mr. LYON. Evidently the chairman does not agree with you, Senator.

Senator RANDELL. I know what the chairman thinks. But I am asking you, if it is not true that practically all political economists agree that such is the case; that it has become almost axiomatic in the teachings of the political economists?

Mr. LYON. I think so, with certain exceptions. As Mr. Barnes indicates, when the surplus is small and is disposed of, then the remainder of the crop may be consumed without regard to the prices paid for the exported surplus.

Senator RANDELL. I do not want to divert you. Your statement is very interesting to me. I simply wanted to ask you that question, and I will allow you to pass right on.

Mr. LYON. The only remedy which Mr. Barnes suggests in his address is the deepening of the waterway between the lakes and the

ocean, in order that we may get our little grain surplus to Europe cheaper in competition with the products of other lands. In the first place, gentlemen, that is like a good many other proposed remedies. Even if it were practical, before it could be applied the patient will be dead; there is the one thing above all others that should be kept in mind, and that is, our farmers must have immediate relief. If it is put over from month to month, there will be untold suffering, because the farm tenants will have to sell their products and the speculators will get the benefit from future increased prices.

Suppose, gentlemen, that the price is guaranteed for the remaining surplus—you will observe that this automatically must eliminate all speculation. No one will dare gamble that will be worth any such product than the price the Government has guaranteed to pay for it. In case there should be an attempt to boost the price above that level, there is a provision in the bill authorizing the grain corporation to import products from other lands in order to keep down the prices to the guaranteed minimum.

In the case of flax, a crop that we import about as much of as we raise, the Government can guarantee the price for next June for all surplus flax that is left, delivered at certain terminals, and the Government will not have to put up a single dollar, but will need only to control imports.

Senator RANDELL. Mr. Lyon, personally I think you have stated something that is a fact, if the Government wants to do that. But I want to ask you this: You limit your guarantee to wheat, oats, corn, and flax, do you not?

Mr. LYON. For the present. This is a temporary makeshift for the crops only of the present year.

Senator RANDELL. Now, the moment we attempt to make a guarantee for those four commodities I would like to say to you that we are going to be confronted with demands for guarantees of prices of every other product of the farm, and every manufactured product, because there are many Senators who represent the communities where there are manufacturing interests and other interests than you have named now. I want you to elucidate where the Government would stop.

Senator SMITH, of Georgia. And I would like to add to the question, why should not cotton be included?

Mr. LYON. I will soon come to that, Senator, and also to sugar.

Senator SMITH of Georgia. Some of us have made up our minds that the greatest commodity exported shall receive consideration, and we are not afraid to say so.

Mr. LYON. I will discuss this cotton situation later, and I think you and I will agree perfectly. Senator.

I suppose that no one can question the general benefits that would result to agriculture by the yearly stabilization of the prices of staple farm products. If the farmer does not want to raise one crop he can raise something else and use his land and his ability for the purpose for which they are best adapted. And not only that, but instead of dumping his grain into market all at once, and thereby congesting the railroads and elevators, there is an inducement for him to hold it back, because the longer he holds it back the more nearly the guaranteed price he will receive, and the less storage he will have to pay.

I will take up cotton now, Senator Smith, if it is necessary for you to go.

Senator SMITH of Georgia. I am much interested in your statement, but I shall have to go very soon.

Mr. LYON. I have not given very much attention to cotton and sugar, but I wish to say a word or two in reference to them.

Senator SMITH of Georgia. I do not mean that I am not deeply interested in all the other agricultural products, and I will do as much for the other products as for my own, but I think I am especially charged with letting the Senate know about our resources.

Mr. LYON. The plan I propose is simply temporary for those four products which constitute our chief food products, with the exception, of course, of flaxseed. But I also advocate a permanent stabilization plan, which would be administered by a commission appointed by the President, representing not only the producing but also the consuming public. If any particular crop should prove too large the commission would undoubtedly discourage the excessive production of that commodity for the following year by reducing the price of that particular product and increasing the price of some other of which we may be short, as, for instance, by increasing the production of sugar from sugar beets.

Now, with reference to the matter of cotton, which is peculiar and might be regarded as a source of weakness in a stabilizing plan but it really is a source of strength. The yield of cotton this last year was approximately 12,000,000 bales, was it not?

Senator SMITH of Georgia. Twelve million five hundred thousand bales.

Mr. LYON. Our usual annual export of cotton, I believe, is between 5,000,000 and 6,000,000 bales.

Senator SMITH of Georgia. Seven million bales.

Mr. LYON. I thought the yearbook showed approximately 6,000,000 bales. We produce approximately one-half of all the cotton in the world, do we not?

Senator SMITH of Georgia. More than that; we produce practically all the standard cotton for manufacture into clothes. The Indian cotton is very short and the Egyptian cotton is very long. The standard cotton for clothing, that goes to the mill to make clothing, is produced as a monopoly in the United States.

Senator RANDELL. But in pounds it is between 60 and 65 per cent of all the cotton in the world.

Mr. LYON. I am going simply by the yearbook, but what you state still further strengthens the position I take with reference to cotton. Now, suppose our Government guarantees a minimum price for surplus cotton, to take effect at certain terminal elevators and warehouses shortly before the new crop comes in. We will suppose they have fixed the price at, say, 25 or 30 cents, or whatever may be regarded as a price that will pay the cost of production with a reasonable profit. Now, this Nation, as the Senator states, has practically a monopoly of cotton. We have something that the world must have, and if this Government guarantees a minimum price for all surplus cotton that remains on hand at the end of the crop year the world must pay that price in order to get it. England almost linked her fortunes with the Confederacy during the Civil War in order that she might get cotton for her mills in Lancashire. And if this Govern-

ment will guarantee a minimum price for cotton the world must come to the United States and buy it.

Here is the situation: Suppose I must have 100,000 bushels of wheat, and each of you five Senators have 20,000 bushels to sell, and that is all there is available. You know that I must have this wheat and you know that Senator Smith here has set a fixed price for his wheat than can not and will not be changed. And you Senators who have set no fixed price for your wheat know that I must buy Senator Smith's wheat and pay that price for it. Now, are you gentlemen going to sell me your wheat for any lower price than that? Are you not going to say that your wheat is just as good as Senator Smith's and you will insist on having approximately the same price for it?

Senator SMITH of Georgia. That surplus having been withdrawn from the ordinary market, they have got to pay for the balance to get it.

Mr. LYON. That is it exactly, Senator. You have struck the nail right on the head. They must come here and get it and pay that price, and the fixing of a price on cotton in this country, which has a practical monopoly of cotton, will also raise the price of similar cotton all over the world to substantially that same level. Am I not correct?

Senator SMITH of Georgia. I do not think there is a doubt about that. The question would arise, then, suppose they raise a large amount of cotton and the Government had to take a considerable amount, would not that be discriminating in favor of one industry at the expense of the balance of the people of the country?

Mr. LYON. The experience of the last few months has demonstrated that the whole business and industrial world rests upon agriculture; that it is the basic industry of this country; that when the farmer prospers the whole world prospers with him, but when the farmer is producing his products at a loss, the whole business and industrial world, as well as agriculture, hangs on the brink of bankruptcy. Is not that true?

Senator SMITH of Georgia. I think it is, largely. I think when we withdraw the purchasing power of the farmers we paralyze the industry of this country.

Mr. LYON. The farmers and those directly dependent upon the farms comprise more than one-half of the people of this country. There are over \$25,000,000,000 of capital invested in farming enterprises. And those farmers are the greatest buyers and the greatest spenders in the world.

Senator NORRIS. Now, suppose we had your plan in operation covering all the articles you have mentioned, would not this be a danger: That people would go into production of cotton to a greater extent than they do now, and wheat and flax and oats, and the over production of them all would be very large, and then the Government of the United States would have to buy that surplus and have it on hand; and next year there would be a large crop of all of those products or of a large portion of them, and they would have to buy that. How would they sell what they had on hand then without coming into competition in the very market on which they had to buy the next year's crop?

Mr. LYON. In my opinion, Senator, this will automatically regulate itself. If, for instance, we raise too large a crop of cotton, or wheat—a larger amount than the commission thinks can be exported and a larger amount than we need to carry over until the next crop, the commission will undoubtedly drop the guaranteed price of cotton, or wheat, or whatever it may be, for the next year, and induce the people to raise other products such as wool, sugar, flax, etc., which we import.

Senator SMITH of Georgia. Then the Government loses to that extent on what it took over?

Mr. LYON. Of course, there is an opportunity for a slight loss, which, however, would be insignificant compared with the enormous benefits that would result to agriculture and industry. The commission should encourage the production of products which we import, rather than those which we export. For instance, the production of sugar of which we require annually about 6,000,000,000 tons that cost us several hundred millions of dollars.

Senator RANDELL. Excuse me, Mr. Lyon, but you do not mean that in tons?

Mr. LYON. I should have said pounds instead of tons. Thank you, Senator. This sugar could be produced in this country, and to produce this additional amount would require about three and one-half million acres of land planted in sugar beets. And how much better it would be for us to encourage the production of additional sugar in this country, instead of encouraging the overproduction of wheat and oats and corn to such an extent that we must export them, and thereby export the fertility of our soil. Would it not be better for us to save the hundreds of millions of dollars that we are now spending for foreign sugar, rather than to ship those products that I have mentioned abroad in competition with the cheap labor and the cheaper lands of other countries?

Senator RANDELL. Would not that same argument apply to rice and wool? We import a good deal of rice and wool.

Mr. LYON. Pardon me, Senator, I supposed so, but when I looked the matter up I found that we export more rice than we import.

Senator RANDELL. Is that so? I did not think that was the case.

Mr. LYON. I am glad, however, that you mentioned wool.

Our importations of wool for the year 1919 were 422,415,000 pounds. Our production for that year was 313,760,000 pounds. There is no reason in the world why the national Government can not guarantee the price of wool to the wool producer without having to buy a single pound as we produce less than one-half the wool that we consume.

Senator SMITH of Georgia. Then, what would become of the manufacture of wool for export; would you not destroy your international commerce in manufactured products?

Mr. LYON. The bill as drawn includes nothing except the four food products mentioned and for the 1920 season only. But when a permanent stabilization plan is adopted it should permit the importation of wool or other products that might be intended for reexportation, either manufactured or otherwise. That certainly should be a provision of a permanent stabilizing act. We require other cottons to mix with our cottons, do we not?

Senator SMITH of Georgia. Not the long staple Egyptian cotton is used for an entirely different manufacture. We have a long staple cotton produced in California, New Mexico, and Arizona now, which they grow on their irrigated land, which is very much like the valley of the Nile. Our ordinary long cotton needs nothing except itself. The very short staple of India is used in the coarsest manufactures, but they must use their cotton, which is longer than ours, for the cheaper and coarser fabrics into which cotton is manufactured. But our standard cotton manufacturers the standard clothing for the world without anything else with it.

Mr. LYON. I am pleased to hear you say that.

But with reference to wool, I think we do require some Australian or other wool to mix with ours for certain clothes.

Senator SMITH of Georgia. I am not so familiar with that as I am with cotton, but I think we do.

Mr. LYON. Now, just a word or two with reference to the benefits that will result to business in general from the stabilization of the price of staple farm products. Suppose the flour mills, linseed oil makers, the oatmeal manufacturers, the corn products manufacturers, the cotton and wool manufacturers could be assured of a stable price for raw materials during the entire season, gradually increasing a little from month to month to cover storage and carrying charges, is it not self-evident how much more safely they could conduct their business by eliminating the risks which now result from speculations and fluctuations in the price of these materials? Would they not be able to conduct their business far more safely and economically and at a much smaller margin of profit than at present?

Now, when the farmer grows a crop, he does not know what to do with it. Just as soon as he gets a crop planted he becomes a gambler; he gambles with the elements and with the bugs and worms, and when he finally succeeds in harvesting a crop he does not know whether to hold for higher prices or sell for fear the price will fall. But under the stabilized plan he knows that it has a stable value in his own granary, and that it will gradually increase a little in price from month to month to offset carrying charges.

Senator SMITH of Georgia. I am sorry, Mr. Lyon, but I shall have to go. I wish I could stay. I am enjoying your discussion very much, and I think I understand your view fully.

Senator RANDELL. Let me ask you one general question: Do you propose to single out agricultural products for stabilizing, and stabilize the products of the farm without stabilizing at the same time the products of those citizens of the Nation who do not live on the farm?

Mr. LYON. Senator, I consider that food is the first requisite of us all; that the production of food is more important than any other occupation.

Senator RANDELL. I have no doubt of that.

Mr. LYON. And we can not expect that our food is going to be produced by these farmers at a loss.

Senator RANDELL. I grant you that, but I am trying to find out what your theory of political economy is. Are you going to stabilize the prices of these farm products without at the same time stabilizing the products of other citizens of the Nation? I am a

farmer myself and it would be of great benefit to me, but I can not help but read the census reports, and they tell me that more than 50 per cent of the people of this country live in communities of 2,500 people or over in population. And I know, as a lawmaker, that we have to have the votes of the representatives of these people to pass laws. It is not only a question of what is right, but what can be passed, as a practical proposition.

Mr. LYON. Senator, the workingmen of this country are not so much interested in what they pay for a loaf of bread as they are in knowing that they are going to be able to get it, not only this year, but next year. Now, an addition of 60 cents per bushel to the price of wheat, a cent a pound, would add less than 1 cent to each pound loaf of bread.

Senator NORRIS. Mr. Lyon, you are not answering Senator Ransdell's question. We might as well face the proposition. Is your proposition confined to agricultural products?

Mr. LYON. It is.

Senator NORRIS. You do not propose to stabilize manufactured products?

Mr. LYON. No, Senator.

Senator NORRIS. But you do not confine it to food products. You have included flax and cotton, which are not food products. If you go into that, where are you going to stop?

Mr. LYON. Cotton and wool, while not food, are essential for clothing and of supreme importance. Flax produces an oil product which is a necessity in the manufacture of paint, and of universal use.

Senator RANSDALL. And so is cotton. I can not let the record pass without saying that cotton seed is a very valuable food product, from which is made a substitute for lard and butter.

Mr. LYON. And flax meal also is a food product of flax. Ultimately it may be deemed advisable to stabilize other products—I am not wise enough to know what the future may bring forth. I believe in taking one step at a time and doing the thing that you think is absolutely practical and immediately necessary. If ultimately it should be deemed wise to stabilize other products, it will be done. I would, as soon as possible, follow the stabilization of the prices of these four products by stabilizing the prices of wool, sugar, cotton, and rice.

Senator RANSDALL. Would you not include tobacco in that?

Mr. LYON. I think it has been determined officially that tobacco is a necessity—at least, in war.

Senator RANSDALL. A lot of people consider it a necessity.

Mr. LYON. I am not an authority on tobacco, except as a rather immoderate user of it.

Now, another thing, gentlemen, in this connection. In this proposed bill I have provided for reviving the United States Grain Corporation for the purpose of handling and financing this proposition. But as the resolution introduced by this committee for the reviving of the War Finance Board has just passed the Senate it would probably be best to turn over to that board the administration of the temporary stabilizing act which I am advocating.

Now, as I said before, the farmer is not interested, to my way of thinking, in the extension of credits as much as he is in getting a fair

price for his products. If he can get a fair price for his products he will go to the bank and pay his debts and make arrangements for his own financing, and if he can get a fair price for his products he is, as I said, the greatest buyer on earth. As soon as the farmer gets a fair price for his products he will buy machinery, and tractors, and clothes, and automobiles, and almost everything that is produced, because he is the greatest spender in the world, and by stabilizing the products of the farm you will stabilize to a great extent, automatically, the business and industrial interests of the country. There is no industry that you could stabilize, in my judgment, which would even begin to approach the benefits resulting from stabilizing the products of the farm.

The stabilization of the price of staple agricultural products will, of course, also automatically tend to stabilize the cost of meat production.

The price of leading agricultural products has already dropped to the prewar levels. If labor and industrial products drop to the same level, as is the present tendency, it will result in widespread disaster and practically treble the enormous public and private indebtedness contracted at war prices, thus requiring three days' labor and three bushels of grain to pay what one day's labor and one bushel of grain would have paid when the indebtedness was contracted.

I thank you, Mr. Chairman and Senators, for the careful attention you have given me.

I would like, in connection with my remarks, if you would include in them the memorial of the house of representatives of the State of South Dakota.

The CHAIRMAN. If it is not too long it will be printed in the record. (The memorial referred to is here printed in full, as follows:)

The house of representatives of the State of South Dakota respectfully represents to the Congress of the United States that—

Whereas it is self-evident that a civilized nation should not longer permit the price of wool, cotton, and food products to be fixed or manipulated by speculation and without regard to the cost of production; and

Whereas all other producers know in advance the approximate prices they can obtain for their products, but the farmer when he plants his crop or begins preparing his stock for market has no assurance that his products, the most important of all, being absolutely necessary for the existence of humanity, will even repay the actual cost of production, and frequently these producers suffer immense losses, millions of dollars having been lost during the past year by our farmers in the preparation of cattle, hogs, and sheep for market; and

Whereas if the prices of staple farm products were stabilized by the General Government, it would add immensely to the stability and security of agriculture, and be equally beneficial to the ultimate consumer; and

Whereas it is our belief that the stabilization of such prices could be accomplished in such a manner as would require the National Government to finance only the surplus, which is usually small compared with the entire crop, and if any surplus should prove too large for profitable disposition by the Government the prices for the following year could be reduced and the prices of other products increased, thereby resulting in the increase of any crop in which a shortage may exist; and

Whereas under the present system gambling and speculation are deemed necessary to make a market, but the fluctuations are so great that frequently from 50 per cent to 100 per cent is added thereby to the price of such products after leaving the farmer's hands and before preparation for use, all of which is lost to the producer and paid for by the ultimate consumer; and

Whereas the stabilization of the prices of certain agricultural products will automatically assist to a great extent in stabilizing the cost of meat production:

Now, therefore, on behalf of the farmers and stock raisers of South Dakota and of the entire Nation, we urgently request the Congress of the United States to enact a law requiring the President of the United States, through a commission of experts fairly representing both the producing and consuming public, to fix and guarantee the prices of such farm products, thus assuring the producer a fair and reasonable price for his products and automatically eliminating gambling and speculation therein.

Mr. LYON. I will ask also that the telegram from the South Dakota Bankers' Association showing their approval of the stabilization plan be included in my remarks.

The CHAIRMAN. It may be included.

(The telegram referred to is here printed in full, as follows:)

SIOUX FALLS, S. DAK., December 1, 1920.

Hon. ED. S. JOHNSON,

United States Senate, Washington, D. C.:

The agricultural and live-stock interests of this country are in peril. The prices have been reduced far below the cost of production. If farmers are forced to sell their grain at the present prices, many of them will be bankrupt. If the stock raisers are forced to sell their immatured stock the herds will be depleted and the stock industry jeopardized. It is the judgment of those best posted and in close touch with these interests that Congress should immediately legislate guaranteeing to the agriculturist a minimum price for his surplus crop and do this while the crop is still in his hands. If such a price could be fixed for at least the cost of production, which should not be less than \$1 per bushel for corn, 75 cents per bushel for oats, \$2.25 per bushel for wheat, and \$3 per bushel for flax at the terminals, this, we think, would immediately stabilize prices. This price, or a price which should be deemed fair to all, should, in our opinion, be made to cover the surplus grain on hand at the end of the crop year. There may be other plans that will save the producer from bankruptcy, but it is essential and important that something be done at once, as otherwise there is no inducement to the food producer to crop his land next year, even if he were able to do so. Such legislation as suggested, or some other plan if thought better that will get immediate relief, should meet the approval and practically the unanimous consent of Congress. In our judgment, proposed extension of credit will not meet the present crisis. Our producers will be able to partially liquidate their indebtedness if they could secure for their products the cost of production. Agriculture is the greatest and most important basic industry, and the stabilization of the price for farm products will also be of tremendous benefit to the business and industrial world. It is urged upon you as a representative of the great agricultural State of South Dakota that you use all means at your command to hasten legislation as indicated.

JOHN W. WADDEN,

President State Bankers' Association.

The CHAIRMAN. We have appreciated your statement very much, Mr. Lyon.

We will now hear Mr. Marsh.

**STATEMENT OF MR. BENJAMIN C. MARSH, SECRETARY AND
DIRECTOR OF LEGISLATION OF THE FARMERS' NATIONAL
COUNCIL.**

Mr. MARSH. Mr. Chairman and gentlemen of the committee, may I preface my very brief statement of a few concrete suggestions? My statement will be very brief, and my suggestions will be concrete, as to how to meet the farmers' credit situation, or lack of credit, but I would like to preface that by making a little reference to the statement made by Dr. Wilcox, of the Country Gentleman, here on Satur-

day. I will be very brief in this. He said that the country was beginning to regard the American Farm Bureau Federation as speaking the mind of the farmers of the country. I think you gentlemen know that there is no single farmers' organization or federation which speaks for the American farmer because just as we have two or more political parties, farmers have different views on economics. Many members of the Farm Bureau Federation are also members of farm organizations which are affiliated with the Farmers' National Council.

Now, the question comes up as to whether or not the farmers have been able to get credit, and I am just going to make a brief statement that in May of this year the Farmers National Council realizing what was coming to the farmers, as we saw it, in the way of deflation of prices, called upon the representatives of three other farm organizations with headquarters here, the American Farm Bureau Federation, the National Grange, and the National Board of Farm Organizations, and we asked that the Secretary of the Treasury should issue certificates of indebtedness to the extent of at least \$40,000,000, to be deposited in the national banks to be loaned to farmers on adequate security as short-time credit. Senator McLean, chairman of the committee on banking and currency, introduced such a joint resolution, which was opposed by the Secretary of the Treasury. Since that time we have been fighting almost continuously for short-time credit for farmers, and we must have a permanent short-time credit system for farmers.

I am going to suggest some measures this morning which are interim and temporary. But the farmers must get adequate credit. I am going to ask that I may be permitted to file with you—not read, but to file with you—the result of a summary that we made of an investigation which was made by a Government body, the Federal Farm Loan Bureau, of the short-time credit situation. At the same time the Secretary of the Treasury and the Federal Reserve Board were saying that the farmer had ample credit.

Inquiries were addressed to the 3,978 national farm loan associations scattered throughout the country, and out of 2,501 replies received by the Farm Loan Bureau between the 5th of August and up to the 1st of October only 1,418, approximately one-third of the operating farm loan associations, report that short-time credit is available, while 292 report no short-time credit, 314 report a fair supply, and 477 report a scarcity.

Interest rates even in the communities where the associations reported short-time credit obtainable were usually from 8 to 10 per cent, except in a few Western and one or two Southern States; and in a few cases 10 to 12 per cent, with occasionally from 20 to 24 per cent. In addition to this fact some of the associations reported the payment of commissions and bonuses, and that loans were often discounted, thereby often increasing the rate of interest reported. A very large proportion of the associations reported that interest rates had gone up 1 to 2 and in some instances 3 to 4 per cent above the interest rates last year. Interest rates in Western States usually ranged 2 to 4 per cent higher than in most Eastern States. It is outlined by districts, or summarized.

(The summary referred to is here printed in full, as follows:)

FARM LOAN BUREAU INVESTIGATION SHOWS SERIOUS SHORTAGE OF SHORT-TIME CREDIT FOR FARMERS.

[By the Farmers' National Council, Bliss Building, Washington, D. C. George P. Hampton, managing director; Benjamin C. Marsh, secretary and director of legislation.]

The Federal Farm Loan Bureau, in the early part of the summer, addressed an inquiry to the 3978 national farm loan associations scattered throughout the country, in which they asked the following questions: (1) Is money obtainable for short-time credit? (2) What is the prevailing rate? (3) How does this rate compare with last year?

Replies were received by the Farm Loan Bureau from every State in the Union except Rhode Island. In not one of the farm loan districts, nor of the 47 States from which reports were received, do over half of the associations operating report that short-time credit is available, except in Iowa, Kansas, and Wisconsin. Of the 2,501 replies received by the Farm Loan Bureau between the 5th of August and up to October 1, only 1,418, approximately one-third of the operating farm loan associations, report that short-time credit is available, while 292 report no short-time credit, 314 report a fair supply, and 477 report a scarcity. Interest rates, even in the communities where the associations reported short-time credit obtainable, were usually from 8 to 10 per cent, except in a few Western and one or two Southern States; in a few cases 10 to 12 per cent, with occasionally 20 to 24 per cent. In addition to this fact some of the associations reported the payment of commissions and bonuses, and that loans were often discounted, thereby increasing the real interest rate reported. A very large proportion of the associations reported that interest rates have gone up 1 to 2 per cent, and in some instances 3 to 4 per cent, above the interest rates last year. Interest rates in Western States usually ranged 2 to 4 per cent higher than in most Eastern States.

CREDIT CONDITIONS IN LAND BANK DISTRICTS.

A detailed analysis of the results of this investigation is most significant.

In the first land bank district, comprising the States of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, and New Jersey, out of 132 operating associations only 31 reported short-time credit available, 6 no credit, 22 a fair supply, and 9 a scarcity.

In the second district, comprising Virginia, Maryland, Delaware, Pennsylvania, and West Virginia, out of 170 operating associations, 52 reported short-time credit available, 16 no credit, 12 a fair supply, and 25 a scarcity.

In the third district, comprising North and South Carolina, Georgia, and Florida, out of 372 operating associations, 128 reported short-time credit available, 18 no credit, 20 a fair supply, and 32 a scarcity.

In the fourth district, comprising Ohio, Indiana, Tennessee, and Kentucky, out of 321 operating associations, 111 reported short-time credit available, 32 no credit, 38 a fair supply, and 33 a scarcity.

In the fifth district, comprising Louisiana, Mississippi, and Alabama, out of 322 operating associations, 80 reported short-time credit available, 28 no credit, 20 a fair supply, and 35 a scarcity.

In the sixth district, comprising Illinois, Missouri, and Arkansas, out of 393 operating associations, 127 reported short-time credit available, 28 no credit, 42 a fair supply, and 71 a scarcity.

In the seventh district, comprising North Dakota, Minnesota, Wisconsin, and Michigan, out of 526 operating associations, 212 reported short-time credit available, 50 no credit, 33 a fair supply, and 70 a scarcity.

In the eighth district, comprising Wyoming, South Dakota, Nebraska, and Iowa, out of 376 operating associations, 151 reported short-time credit available, 33 no credit, 21 a fair supply, and 62 a scarcity.

In the ninth district, comprising Colorado, Kansas, Oklahoma, and New Mexico, out of 411 operating associations, 177 reported short-time credit available, 18 no credit, 18 a fair supply, and 34 a scarcity.

In the tenth district, consisting of one State, Texas, out of 324 operating associations, 134 reported short-time credit available, 13 no credit, 30 a fair supply, and 41 a scarcity.

In the eleventh district, comprising California, Utah, Nevada, and Arizona, out of 176 operating associations, 58 reported short-time credit available, 13 no credit, 27 a fair supply, and 14 a scarcity.

In the twelfth district, comprising Idaho, Montana, Oregon, and Washington, out of 455 operating associations, 157 reported short-time credit available, 37 no credit, 31 a fair supply, and 51 a scarcity.

CREDIT CONDITIONS IN SOME STATES.

In North Dakota, out of 175 chartered associations, only 52 reported short-time credit available; in South Dakota, out of 82 associations, only 26; in Texas, out of 342 associations, 132; in Michigan, out of 121 associations, 43; in Iowa, out of 141 associations, 83. In Kansas out of 132 associations, 67 reported short-time credit available; in Wisconsin, 49 out of 88; in Montana, 29 out of 133; in North Carolina, 44 out of 130; in South Carolina, 30 out of 101; in Washington, 69 out of 156; in Oregon, 40 out of 91; in Idaho, 19 out of 75; in Maine, 6 out of 17; and in New York, 13 out of 48.

We have had a good deal of talk of extending proper credit, what the farmer is entitled to. And may I state that it is the opinion of the Farmers National Council that the farmers of the country, the primary producers, are entitled to sufficient credit to enable them to retain control of their crops, and to market them in an orderly way to meet effective consumption demands throughout the year. We do not see any justification for the position taken by the big investment bankers and big business generally, that the farmer should produce, produce, and produce, and as soon as he has stopped producing, there his relationship to his product ceases. Of course, the big interests are jealous and envious of the farmers getting into commercial life; that is, handling their products in commerce. But we believe the farmers have got to see their crops through to the consumer as far as possible. It is not completely possible, but that is the ideal, and I mention this because it will have a bearing on further suggestions I shall make this morning.

Now, that is contrary, of course, to the vested interests—I do not say the rights, but advisedly say interests of the big investment bankers and big business. They do not want it. For instance, as I have stated to Gov. Harding, of the Federal reserve board—I am going to repeat what I have said to him—it is not going to take any more credit practically for the farmers' crop to be held by the farmers than it will for it to be held by speculative middlemen. It may take a fund of \$4,000,000,000 or \$5,000,000,000—perhaps much less, it will have to be a revolving fund—to handle the farmers' crops, but it will not cost, roughly speaking, any more for the crop to be held by the farmers awaiting effective consumption demand, and it will not take any more credit if the credit be extended to the farmers to hold the crop for the effective demand than it will to give that credit to the bankers and to the investment brokers and to the big business interests.

The CHAIRMAN. In other words, Mr. Marsh, your plan is that the farmers shall control their business in the same way that the manufacturers and other business men control theirs?

Mr. MARSH. Exactly that, and also that their business does not stop, for instance, when they unload their grain at the elevator; their business goes right through until the product is practically ready for consumption.

The CHAIRMAN. That would include the milling and sales?

Mr. MARSH. Yes, sir; commerce in marketing, as well as producing.

Now, I want to say this, which I think will be interesting and apropos to Senator Ransdell's question: A week ago on Sunday I

spoke in Chicago before the Chicago Federation of Labor, and there were some 500 men and women in the hall, and I asked the question twice:

Is there a single man or woman in this body—and I knew some of them personally—who does not agree that the farmer is entitled to get his full costs of production plus a reasonable profit, the going rate of interest in his community, whether it be 5 per cent or 6 per cent or 7 per cent?

Everyone agreed that he was entitled to that.

In October, when these conferences on farmers' credit were held here, the newspapers were playing up the charges that the farmers were attempting to get class privileges in getting help from the Government. I went to Mr. Frank Morrison, secretary of the American Federation of Labor, and to Mr. Warren S. Stone, president of the Brotherhood of Railroad Engineers, and I talked or wrote to William H. Johnson, president of the National Association of Machinists, and to Mr. Bert M. Jewell, the president of the A. F. L., railway department, and told them that big business is trying to gather in the farm the same as they have labor, and "will you men go to this conference and tell them what you think is right?" Messrs. Stone and Jewell could not go, but Mr. Johnson and Mr. Morrison came, and Messrs. Jewell and Stone wired them to speak for them and to go to the White House and to this conference and to say that the farmers were not getting a fair deal.

Now, I mention this because I hope we are not going to have anybody rise again and try to play the speculators and middleman's game and say that farmers and labor are not in agreement upon the farmers getting their production costs and a reasonable profit. I know farmers will be satisfied with that.

The CHAIRMAN. That would indicate, Mr. Marsh, that it is an important matter for the Government to proceed with this investigation of the cost of production of farm products, would it not?

Mr. MARSH. I do not see any stable basis for agriculture until it is put on the basis of knowing costs of production. I am sure the present Congress will give appropriations so that the Bureau of Farm Management, which is charged with the duty of ascertaining those costs can do a thorough job.

The CHAIRMAN. They had about \$300,000, I think, last year, for that work. I do not know how fully it has been used, or how fully they have succeeded in making their investigations. I have a report, not complete, but to the effect that a great many thousands of farms have been investigated; many thousands of farmers have been seen and investigations have been made as to how much it costs to produce a bushel of wheat, or by the acre, to produce grain and other products, and that this has gone on quite extensively, but I do not think they have been west of the Mississippi River. I think it was mostly in what I call the Middle West.

Mr. MARSH. It has gone somewhat to the Pacific coast. And here is the plan, if I may refer to it, as outlined to me by Dr. Taylor, the head of the Bureau of Farm Management. I am sure this was not given to me confidentially, and so I may speak of it. They are making as thorough a survey as possible of the costs of production of farm staples. They will not repeat that survey every year, but they have their basic figures as a manufacturer would. And then

they have these figures as it were, as a basis, and taking into consideration the changing costs of fertilizers, machinery, and labor, they will estimate the costs of farm production with less expense after once getting this solid foundation of facts. They will be able, on this foundation of facts, to estimate what the cost of production is each year, instead of having to go over the same situation every time. They will be able to correct it up from year to year by taking into consideration the factors that enter into the cost.

Senator NORTON. Now, Mr. Marsh, while that to me is very interesting, and convincing, as I do, and I think every honest man must concede, that the farmer is entitled to what you have said—

Mr. MARSH. *Interposing.* As a minimum.

Senator NORTON. Yes. Now the question is, what legislation can we enact to do that?

Mr. MARSH. I have discussed a little, and I will come to that subject now.

I have five specific suggestions. In 1915 the Federal Reserve Board adopted a ruling which I will file with the committee later; I was not able to get my hands on it this morning. I will get a copy from the Federal Reserve Board and put it in. In that it was stipulated that while they were then loaning money to member banks at 3½ per cent, commodity paper as distinguished from commercial paper should be discounted at not to exceed 6 per cent on certain conditions, which I do not want to quote because I do not remember them exactly.

COMMODITY PAPER.

[Federal Reserve Board Regulation Q, series of 1915, Washington, D. C.]

In this regulation the term "commodity paper" is defined as a note, draft, or bill of exchange secured by warehouse terminal receipts, or shipping documents covering approved and readily marketable, nonperishable staples properly insured.

Commodity paper, to be eligible for discount by a Federal reserve bank under section 13, at the special rates hereby authorized to be established for commodity paper below the usual commercial rates, must (a) comply with all the requirements of regulation B, series of 1915, Paragraphs I and II, or with the requirements of regulation C, series of 1915; (b) and be paper on which the rate of interest or discount, including commission charged the maker, does not exceed 6 per cent per annum, and also (c) comply with such requirements as to warehouse or terminal receipts, shipping documents, insurance, etc., adapted to the particular needs of its district as a condition of the special rate herein authorized.

Federal reserve banks are now authorized to submit rates for the discount of commodity paper in accord with this regulation for review by the board.

CHARLES S. HAMLIN, *Governor.*

H. PARKER WILLS, *Secretary.*

The Federal Reserve Board stated of the above ruling:

"It is expected that this new class of paper with its special rates will prove of particular efficacy in meeting the seasonal demands for credit facilities in the crop-producing districts, and the board in authorizing these special rates will rely on the Federal reserve banks to adopt a policy which will result in securing for the ultimate borrowers the extension of credit on moderate terms by member banks. As in the case of trade acceptances, the rates to be established for commodity paper may be expected to be lower than the rates established for ordinary commercial paper."

Now, some such rate of interest, we believe, is thoroughly practical. We believe that a spread or maximum of 1½, and probably 1 per cent between the rate at which the banks got money from the

Federal Reserve System and the rates which they charge is ample, and there should be legislation, which Gov. Harding informed us is essential, to limit that spread to 1 per cent.

I raise another question in this connection. We do know that there is ample credit, only it is turned in the wrong channels. Now, we are told the farmer has adequate credit, and I mention this because the representatives of the Farmers' National Council have been through this all summer long. Here are the facts: The Comptroller of the Currency reports that the deposits of national, State, and savings institutions, etc., are approximately \$53,000,000,000. The long time mortgages outstanding against farm values total about \$4,000,000,000, and the short-time credit loans of farmers about \$2,100,000,000, or in round numbers, \$6,000,000,000.

It seems to me, with the importance, of agriculture, it is clear that the farmers are not getting their pro rata of the resources of the country which should be devoted to essential and basic production. I have not seen any answer to these facts from the Secretary of the Treasury or Governor Harding—and I do not mean to be personal—and I apologize for mentioning names, but I have to. These are the gentlemen who seem to block the efforts to get farmers short-time credits. Perhaps they are justified, but I have never seen a single thing put out which justified the restrictions of credit to farmers.

Now, Gov. Harding, in a speech before the Cleveland Chamber of Commerce, I think on September 16, gave figures as to the amount of loans made to agriculture by the reserve banks, and if I recall correctly, there were about \$305,000,000 loaned by the Chicago Bank. There was an item of \$75,000,000 for industries relating to agriculture. I inquired of Gov. Harding's secretary what that meant. I said, "Would it include loans to the packers and the milling companies, and the International Harvester Co., and such companies?" He said, "Yes." I submit it is not fair to include loans to such concerns as these as loans to agriculture. And as we figure it—and Gov. Harding has not challenged these figures, although we have given them wide publicity—not over 12 per cent of the resources of the country in the national banks are devoted to farmers' credit needs—probably not 15 per cent. I will submit these figures later. We believe they are entitled to get those credits; certainly on a prorata basis; taking either the basis of the number of men and women employed in the industry as compared with other industries or the capital invested.

Senator SMITH of South Carolina. Did you see Senator Glass's statement yesterday as to the amount in each district of the paper rediscounted this year as compared with last year, coming up to November 1?

Mr. MARSH. I did not, but I know Senator Glass can not have the exact figures so far as agriculture is concerned, unless he has gotten them very recently from the governor of the Federal Reserve Board.

Senator SMITH of South Carolina. The question led up to this: I just went in answer to a telephone message from a member of the House who wanted to know what per cent of the so-called increases were for agriculture. And I went up to the department and tried to get a separation; I tried to get them to give me distinctly what

per cent of all this was discounted farm paper for the legitimate purpose, and specific purpose, of aiding farmers. I did not get it.

Senator McNARY. Where did you go?

Senator SMITH of South Carolina. I went to the Treasury Department.

Senator McNARY. Would they not give it to you, or did they not have it.

Senator SMITH of South Carolina. No; they did not seem to have it separated. One particular thing, I was trying to get at the Liberty bonds held throughout the country, a great many held by the farmers, and some by the bankers, had been converted to the commercial account; transferred from a bond account to a commercial account—simply transferred from the bond account to the commercial account and it was counted as a commercial account instead of a bond account.

Senator NORRIS. In other words, they included something this year they had not included last year.

Senator SMITH of South Carolina. Precisely.

Senator NORRIS. Which is a matter of bookkeeping?

Senator SMITH of South Carolina. Yes; and I am having the Controller of the Currency now give me that and tell me what amount is made up in this transfer.

Mr. MARSH. The controller showed me the blanks they are sending out, but it will be some time before the information is in. In these blanks he asks how much they have discounted for commercial paper.

Senator SMITH of South Carolina. Yes; they told me I could not get it before January 1.

Mr. MARSH. Also a pertinent question would be, how much money did you send to Wall Street? I do not mean the locality, but the interests that have the disposition to grab everything in sight.

The CHAIRMAN. Is not the statement of Senator Glass this: That he gave only a total, or summary of the resources in each reserve district? Now, the law provides that where a banker has overloaned he can transfer his loans to another reserve bank. That would not mean that it is farm paper. Supposing you take \$1,000,000 worth of loans from the Chicago bank or the New York bank and send it to a South Carolina bank, and that district might be altogether manufacturers' paper, and there might not be a dollar of agricultural paper, and so Senator Glass's statement does not mean that it may all be farm paper.

Senator SMITH of South Carolina. If Mr. Marsh will allow me, it is a matter of vital importance to this committee. We should not allow that kind of figures to go unanalyzed. And I would have yesterday risen in my place and challenged it, but I was in the process of getting these things, and it is one of those unfortunate situations where you hear a partial statement and can not analyze it.

Senator CAPPER. Where do you get your statement of 12 per cent?

Mr. MARSH. That is the available data. We have been working on this all summer, and I would be glad, in the next three or four days, to look at Senator Glass's statement and submit to the committee some figures we have, if it will be any help to the committee.

The CHAIRMAN. I wish you would do that, and try to get us also a statement from the departments.

Senator SMITH of South Carolina. I do not like to take Mr. Marsh's time any longer, but I regard this as important. Would it not be a good plan for this committee to get the Comptroller of the Currency and the Federal Reserve Board to give us an actual account of the paper that has been rediscounted in 1920, and mention that we do not want them to include transfers or any other things such as bonds or rediscounts on loans in it, but this year's actual transactions?

Senator RANDELL. I think if you make that as a motion the chairman will send for it.

The CHAIRMAN. Would you include 1919 and 1920?

Senator SMITH of South Carolina. Yes; as a comparison.

The CHAIRMAN. Is there any objection to that? If not, I will be glad to call for it.

Mr. MARSH. I think that is a good suggestion, and then I will submit what we have, and the figures you are asking for will come up to date.

I am afraid I can not finish this morning, but can I take up one or two other matters which are important, as we view it.

Now, I have been in the Northwest recently, in St. Paul and Minneapolis, in Iowa, and some other States. Reference is made to the farmers' difficulties by Mr. Lyon as very seriously affecting labor as well. The farmers' great market is labor, and the farmer is labor's great market. I found in discussing these questions with people in the several cities where I have been, and chiefly with farmers' representatives and with some labor leaders, that they feared that when we export so much of farm products that the profiteers at home are going to take charge of the situation and hammer up prices to the consumers. Many people in the cities are hard up—and I understand there are close to a million and a half unemployed in America to-day; that is a rough estimate, and I do not put it down as final.

In all probability it is going to increase. It is inevitable. We know the big corporations are preparing to lay off some of their men. There are now bread lines in a great many cities. It has not become the rage to write it up in the papers yet. In making this suggestion as to wheat, it is with the understanding that I am going to take up other farm products later in my testimony. But it does seem clear to us that the United States Grain Corporation did not function in the public interest, because I think while Mr. Barnes is an honest man, he favored the elevator and milling men too strongly. But if the United States Grain Corporation, or some similar corporation, could be created promptly but with much more power than was given in the last act creating the grain corporation—

Senator McNARY (interposing). Was that United States Grain Corporation founded on what is known as the Lever Food Act?

Mr. MARSH. I think it was a separate act, if I remember correctly.

Senator McNARY. Was not the grain corporation an outspring of the Lever Food Act, Mr. Chairman?

The CHAIRMAN. Originally, yes.

Senator McNARY. And in that it found its powers to function?

The CHAIRMAN. Yes.

Senator McNARY. Then you say you want powers broader than the Lever Food Act?

Mr. MARSH. Yes, sir; as to price fixing. Because I find that the Federal Trade Commission in its report on commercial wheat flour milling, under date of November 22, 1920, states the average investment per barrel for the 37 companies thus determined increased from \$1.14 in 1913-14 to \$1.90 in 1917-18, and profit per barrel from 14 to 65 cents. That is nearly a 400 per cent profit.

Now, in suggesting changes as to the United States Grain Corporation, we appreciate the difficulties of the situation. We know that we are in very stringent financial times; times of unemployment. We believe that while the executive should be very carefully selected, the grain corporation should begin functioning soon. Of course, there must be a revolving fund with which the corporation can operate. The wheat should be bought at the bulk line—say \$2.50 or \$2.75—I do not want to suggest the exact price, as that is a matter that will have to be determined by inquiry. The point is to get the wheat under the Government's control right straight through; control the elevators, control the milling companies, and see that the baker and the housewife get a barrel of flour from them at reasonable cost, a cost which is legitimate, with a basic price of \$2.50 or \$2.75 payment for a bushel of wheat.

Senator NORRIS. In other words, you would not fix the price, but you would give this commission power to fix prices to the public?

Mr. MARSH. Yes; down to the baker, and the community can control the baker, as you control the bakers here in Washington. You have had some dealings with them here. And it would be well to have the operation of this corporation in the hands of a board composed of organized farmers, organized labor, and organized women. The board should be generally representative of the public interest. I hope we are not going to have the trouble which I am afraid we are going to have, with unemployment and financial difficulties this winter. But we think it is as wise to be prepared for financial stringency, as it is to be prepared for war.

Senator McNARY: Mr. Marsh, the Lever food act is not being used; would you expect the Congress to pass a more stringent act, even though that is on the statute books and not employed at this time?

Mr. MARSH. I think one failure, or one reason of the partial failure of the grain corporation is that they did not exercise the control hard enough over the elevators and millers. You see, they put the load on the farmers. The farmer is not kicking now, but he said, "Why should the wheat farmers be singled out for control, and yet the consumer pay an enormous price for wheat?"

The CHAIRMAN. In other words, the restricted price was not carried out to the consumer?

Mr. MARSH. The restricted price failed, because the consumer did not get the benefit, as we view the situation. I talked with some bankers in the northwest because I try to get the banker's viewpoint,

although I do not usually agree with it, but I talked to some and they said that lots of the banks are going to break, as so many of them have in North Dakota, very shortly, unless the farmers can begin to move their crops—their wheat, in this instance, of course. And if you get failures like that going in a number of States the speed is very rapid, if it once gets started. We believe this would be a legitimate measure of relief, not only to the wheat farmers, but in all the States. It is temporary, and I hope it will not be necessary more than a year. I think there will be commodity marketing of farm staples ultimately.

Senator NORRIS. You are not asking this then as a permanent proposition?

Mr. MARSH. No, Senator Norris, I am glad you raised that, it is realized that the whole world is on edge to-day.

The CHAIRMAN. An emergency measure, such as the war measures?

Mr. MARSH. We have reached a very acute stage. The war was largely financed by discounting the future, and we have reached the stage of paying the bill.

Now, I have three other suggestions to make, but I have digressed, and I have only five minutes. Shall I summarize them?

The CHAIRMAN. I take it the committee is anxious to get to the Senate. We could probably hear you some other time.

Mr. MARSH. Suppose I just outline one of them?

Senator NORRIS. Suppose you just state what they are, and outline them in detail some other time.

Mr. MARSH. Yes. I have been trying to study what the effect of the war finance corporation will be and of this big, export corporation with \$100,000,000 capital just organized at Chicago, which can have its capital expanded to \$1,000,000,000 under the Edge law, just what the effect will be. I believe the rehabilitation of the war finance corporation is admirable. But here is the situation, if I understand it correctly: the Government takes no risk. The private banks and the corporations get all the risks themselves. It is the private banker or banking syndicate that takes these risks. I do not believe it is right to the American people to make an appropriation of \$1,633,000,000 to the Army and Navy after this war is over, and that is what the appropriations asked for those two departments total. We need legislation that will assist in carrying these farm products and dairy products to Europe. But we think you ought to cut that appropriation for the Army and Navy in half, and use half to finance the export of these farm products. And we think this action should be taken immediately; it ought not to take three weeks to begin operations. It will enable the farmers to buy labor's products, it will stabilize farm products, and it will restore order and hope in Europe, and I think that is a most important first element, and we do not ask for a dollar more in appropriations than requests before you to-day. I think I may suggest that England is too canny to build more dreadnaughts; England is going to rely largely in the future on submarines and airplanes. Why should we sink \$695,000,000 in a navy which in the course of a few years, by the development of airplanes, will be out of commission? I have not found a farmer yet who justified any such expenditure for the

Army and Navy. Cut down Army and Navy appropriations to \$800,000,000, and make \$800,000,000 immediately available, within the next few weeks if Congress so determines, to invest at the reasonable going prices for farm products here for export to European countries, and it will have a tremendously beneficial effect on international relations.

Senator McNARY. You would have it appropriated and then take it out of the Army and Navy fund?

Mr. MARSH. Yes; I mean to reduce those appropriations, pare down that enormous Army and Navy appropriation and use the surplus for the immediate food and clothing needs of the world, and not for making more armaments.

Senator CAPPER. But we haven't any surplus; you assume the money is there.

Mr. MARSH. I know you will have to issue Treasury certificates of indebtedness in anticipation of collection of taxes. And I take this position: Is it not justified? I did not notice in this morning's paper how many wars are going on, but I think seventeen or so. We took a long chance to win a war, and we have got to go to some expense and take chances to get peace. We have not peace yet. Ours is a practical proposition to help the situation here at home and abroad.

I want to outline this railroad situation, because I have been astounded at the way the freight rates are hitting the farmer. To-day the farmer has to pay the railroad between one-third and one-fourth of all he gets for his products under the Cummins-Esch law. I met a farmer at Indianapolis, and he said he was to get \$25 a ton for hay; had a contract for that and had received \$3 a ton, and then the price fell from \$25 to \$15, and contract was canceled, but the freight rate has gone from \$1.40 to \$2.40 per ton while the price has gone down. Now, we know that next year's crop is not going to bring what this year's brings; and next year the farmers will have to pay the railroads one-third or more of their receipts for their products.

Senator McNARY. Out on the Pacific coast, in crossing the great desert, it is more than one-fourth now, and we can not afford to ship any more.

Mr. MARSH. I tried to err on the side of safety. It is putting an embargo on farm products from that section of the western country to help the east.

Senator RANDELL. What do you suggest as a remedy? We agree these rates are very high.

Mr. MARSH. Senator Ransdell, it is going to be a big issue. I am anticipating some settlement later. We do not believe you can put the agriculture of this country on a stable basis until you put the railroads under unified government operation; I do not say ownership, but under unified government operation. Reduce freight rates to the level in force when the railroads were returned, and if there is any deficit, make it up out of taxation. We face facts, not a theory, and not only the railroad rates but the ocean rates are too high; but the railroad rates are crushing the farmer. The freight rates are going up, and the farm products are coming down. I met a farmer the other day who said, "Where are we going to get off?" I talked to a number of farmers for two hours the other day, and they said they are terribly hit, and it will be harder next year. And they voted money for this fight here.

I do not need to say to you that we are for immediate packer control legislation. That is the last one of the general suggestions I wanted to make. Sometime when you are meeting—I do not want you to call a meeting for the purpose, because I know you are too busy, but sometime in the near future when you are meeting I would like to outline further the council's program on these matters. The packer-control legislation I hope will be passed to-morrow morning, by the Senate, so it will not be necessary to go into that.

The CHAIRMAN. Mr. Marsh; your statement has been very illuminating, and I am sure the committee will be glad to hear you some other time. We will meet soon, and we will let you know.

Mr. MARSH. Mr. Chairman, I have an article here from the Iowa Homestead, under date of December 9, 1920, published at Des Moines, Iowa, and I would like to read an excerpt from an article entitled "Iowa farmers give bankers some things to think over."

The CHAIRMAN. That may go into the record.

(The article referred to is here printed in full, as follows:)

A Mr. McKay, representing the Federal reserve bank, was the next speaker, and he bluntly told the gathering that Iowa banks owed the Federal reserve bank \$91,000,000, which was more than her share, and he said that these loans were going to be called when due, and would have to be paid; which means that the Iowa banks in turn must call in their loans to farmers; which in turn means that farmers must sell their grain at any price to meet their obligations at the bank. But Mr. McKay did not tell the meeting whether this \$91,000,000, which Iowa banks owe the Federal reserve bank, was more than Iowa farmers have put into that institution, nor that the allotment to the various States was made largely by eastern financial influences, who want the lion's share of the money for Wall Street speculation.

After Mr. McKay had finished, the floodgates of oratory were loosened and the storm broke. One shrewd, hard-fisted farmer demanded to whom the Federal reserve bank would loan Iowa's \$91,000,000 after her obligations were paid, and Mr. McKay was not prepared to answer the question. Then another farmer asked who was going to buy the farmers' products, if they were forced to sell them at ruinous prices, and he got no more satisfaction than the previous inquirer. Next another farmer wanted to know if it would require more money to finance Iowa's grain crops in the hands of the producers than in those of the speculators, and again the reply was vague and hazy.

So it went, till toward the end of the meeting a farmer arose and, addressing the bankers, said:

"I have listened to every formal address here to-day, and listened in vain for the suggestion of any permanent remedy for our troubles. Everything that has been held out has been merely a temporary makeshift. I confess I do not know the permanent remedy, but I want you bankers, who know more about this matter than I do, to tell me the answer. I want to hear from some of you now some specific plan to cure these evils, so that they will not recur every year."

There was a painful silence following this question, which Col. Brookhart characterized as the most important during the conference and the one which, above all others, most deserved answer. The body of men who were doing the most to meet and answer it, Col. Brookhart said, was the "Committee of seventeen," appointed by the American Farm Bureau Federation, at Chicago, last July. This committee in its survey has found that more than three-fourths of all the money in Iowa banks, and more than half of all the money in all the banks of the United States is farmers' money—put there by farmers. But when it came to lending this money, the farmers have little to say about who can borrow it. To a large extent, they found that it went for the use and benefit of the big financial interests.

The CHAIRMAN. The committee will stand adjourned, subject to the call of the chairman.

(And thereupon, at 12 o'clock m., the committee adjourned.)

FARMERS' NATIONAL COUNCIL,
Washington, D. C., December 16, 1920.

HON. ASLE J. GRONNA,

Chairman Senate Committee on Agriculture.

MY DEAR SENATOR GRONNA: In compliance with the request of the Senate Committee on Agriculture I have carefully read Senator Glass's speech in the Senate on December 13 regarding the discounts and rediscounts by Federal reserve banks.

I am unable from Senator Glass's speech to make any deduction whatever as to whether the legitimate agricultural credit needs of the country have been met by the Federal reserve banks. While the figures which the Senator cites as to the rediscounts shown in practically every instance a substantial increase in rediscounts on November 20 of this year over November 20 of last year, there is nothing to indicate, or at least to prove, that the increase in rediscounts is due to the rediscounting of agricultural paper. Of course manufacturing interests have had dealings with the Federal Reserve Board, and we shall not know the exact figures as to the amount of agricultural paper rediscounted by the Federal Reserve Board until the Comptroller of the Currency issues his report on this matter, based, as I stated to the committee, upon the inquiry he has been making of national banks as to the classification of rediscounts and loans which they have made. This information will probably not be available until the end of this month.

May I, however, cite some of the figures given by the governor of the Federal Reserve Board in his speech to the Cleveland Chamber of Commerce on September 16, 1920, to show that there has been misinformation, or lack of information, as to the amount of rediscounts made by the Federal reserve banks directly for agricultural purposes? Gov. Harding in his speech stated that the bills discounted by the Federal reserve banks in the South and West "directly in support of agriculture and live-stock interests" amounted, on September 3, 1920, to \$305,250,000, including \$142,000,000 (nearly half of this amount) of loans "made directly or indirectly to banks in strictly agricultural sections" by the Chicago Federal reserve bank. The farmers' direct loans for the eight reserve banks at Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, including \$142,000,000 noted above was only 11.4 per cent—about one-ninth—of the total value of bills discounted by the reserve banks on September 10, 1920.

The governor did not state what percentage of the bills discounted by the Federal reserve banks of New York, Boston, Philadelphia, and Cleveland were directly and indirectly for agricultural purposes. Doubtless there is a considerable amount but even at the most liberal estimate the maximum loans directly to farmers probably amount at most to only about 22 per cent, about one-fifth of the total value of bills discounted by the Federal reserve banks on September 10. In his Cleveland speech Gov. Harding "estimates" that the total discounts in support of agriculture made by the eight Federal reserve banks in the southeast was \$614,861,000, of which \$202,101,000 is "the estimated amount of discounts indirectly in support of agricultural and live-stock interests." Of the \$202,101,000 discounts "indirectly made in support of agriculture," the Chicago Federal reserve bank is credited with \$75,000,000 "loans to industries directly allied to agriculture." This might include the meat packers, manufacturers of agricultural machinery and implements, elevator and milling companies, whose huge profits made off the farmers hardly entitles the loans made to them to be considered "discounts indirectly in aid of agricultural and live-stock interests."

In view of the fact that the governor of the Federal Reserve Board did not mention the amount of direct loans from the four reserve banks of New York, Philadelphia, Boston, and Baltimore, though he probably would have done so if these banks held much agricultural paper, our estimate of 22 per cent as to the total loans directed to farmers is unquestionably more than liberal.

I should be very glad to appear before the Senate Committee on Agriculture as soon as agreeable to the committee to continue my testimony.

Yours, respectfully,

BENJAMIN C. MARSH,
Secretary and Director of Legislation.

APPENDIX.

TREASURY DEPARTMENT,
Washington, December 10, 1920.

MY DEAR SENATOR: When I was before the Joint Committee of the Senate and House last week I said that I would attempt to send you the exports of certain leading agricultural products by quantity. I am glad to give you the following statement:

	Quantity.	Value.
1913.		
Animals (cattle, hogs, horses, mules, and sheep).....	number.. 243, 196	\$6, 595, 644
Cereals and their flours.....	pounds.. 12, 207, 088, 542	198, 049, 732
Eggs.....	dozen.. 17, 668, 575	3, 808, 645
Meat products (beef, hog, mutton, sausage, and lard).....	pounds.. 1, 297, 200, 342	153, 104, 237
Butter, cheese, and preserved milk.....	do.. 22, 238, 874	2, 639, 790
Sugar.....	do.. 51, 772, 125	1, 873, 923
Unmanufactured tobacco.....	do.. 444, 371, 661	52, 937, 894
Unmanufactured cotton.....	do.. 4, 481, 868, 754	575, 495, 653
1919.		
Animals (cattle, hogs, horses, mules, and sheep).....	number.. 155, 948	11, 535, 982
Cereals and their flours.....	pounds.. 19, 629, 818, 873	905, 095, 781
Eggs.....	dozen.. 38, 789, 470	18, 812, 231
Meat products (beef, hog, mutton, sausage, and lard).....	pounds.. 3, 242, 545, 677	985, 012, 708
Butter, cheese, and preserved milk.....	do.. 900, 897, 620	144, 671, 760
Sugar.....	do.. 1, 475, 407, 678	114, 737, 491
Unmanufactured tobacco.....	do.. 776, 684, 918	259, 987, 837
Unmanufactured cotton.....	do.. 3, 367, 677, 985	1, 137, 371, 252
1920 (10 MONTHS).		
Animals (cattle, hogs, horses, mules, and sheep).....	number.. 173, 316	15, 927, 584
Cereals and their flours.....	pounds.. 18, 438, 696, 356	873, 185, 734
Eggs.....	dozen.. 22, 927, 263	11, 329, 022
Meat products (beef, hog, mutton, sausage, and lard).....	pounds.. 1, 514, 329, 847	366, 473, 001
Butter, cheese, and preserved milk.....	do.. 408, 166, 279	73, 325, 173
Sugar.....	do.. 870, 365, 861	88, 544, 975
Unmanufactured tobacco.....	do.. 405, 598, 872	211, 734, 159
Unmanufactured cotton.....	do.. 2, 407, 662, 146	952, 950, 851
1920 (12 MONTHS ON BASIS OF 10 MONTHS).		
Animals (cattle, hogs, horses, mules, and sheep).....	number.. 207, 979	19, 113, 101
Cereals and their flours.....	pounds.. 23, 126, 435, 627	1, 047, 822, 881
Eggs.....	dozen.. 27, 512, 716	13, 594, 826
Meat products (beef, hog, mutton, sausage, and lard).....	pounds.. 1, 817, 195, 816	439, 767, 600
Butter, cheese, and preserved milk.....	do.. 489, 799, 535	87, 990, 208
Sugar.....	do.. 1, 044, 439, 033	106, 253, 970
Unmanufactured tobacco.....	do.. 486, 718, 646	254, 080, 991
Unmanufactured cotton.....	do.. 2, 889, 194, 575	1, 143, 641, 021

I am sending herewith a more detailed set of statistics.

The following gives the total value of exports and imports for 1913, 1919, and for 10 months of 1920:

	1913	1919	1920 (10 months).
Exports of merchandise.....	\$2, 484, 018, 292	\$7, 920, 425, 900	\$6, 832, 324, 338
Imports of merchandise.....	1, 792, 596, 480	3, 904, 364, 932	4, 692, 695, 065
Excess of exports.....	691, 421, 812	4, 016, 061, 058	2, 139, 629, 273

The total exports for the current calendar year, on the basis of the 10 months, it is estimated, would be \$8,196,000,000. The total exports for the last year of the war—that is, for the calendar year 1918—were approximately six billions.

Some member of the committee asked what fraction of the exports went to Europe. Preceding the war the percentage going to Europe was about 68.

I am of the opinion that the percentage since the war would range somewhat lower, perhaps not over 65 per cent and not under 60 per cent.

Very truly, yours,

D. F. HOUSTON.

HON. GEORGE W. NORRIS,
United States Senate.

United States exports of the principal domestic agricultural products of the
United States.

FOR THE CALENDAR YEAR 1919.

Articles.	1919	
	Quantity.	Value.
Animals:		
Cattle.....number.....	69,859	\$6,439,521
Hogs.....do.....	24,745	683,911
Horses.....do.....	19,691	2,853,396
Mules.....do.....	7,122	1,189,180
Sheep.....do.....	34,531	369,974
Total of above.....	155,948	11,535,962
All other, including fowls.....		464,702
Breadstuffs:		
Wheat.....pounds.....	8,885,188,200	356,918,296
Wheat flour.....do.....	5,184,117,876	293,449,517
Bran and middlings.....do.....	10,118,080	233,114
Mill feed.....do.....	27,390,720	798,636
Bread and biscuit.....do.....	12,827,005	2,506,447
Total wheat and products.....do.....	14,119,641,881	653,906,010
Rice and rice bran.....do.....	377,497,423	34,812,805
Other cereals—		
Barley.....do.....	180,536,832	53,832,319
Buckwheat.....do.....	8,931,552	307,454
Corn.....do.....	626,783,248	18,624,400
Oats.....do.....	1,769,425,120	46,485,424
Rye.....do.....	1,842,297,296	61,786,232
Corn meal.....do.....	235,680,004	10,920,847
Oat meal.....do.....	220,883,637	11,995,782
Rye flour.....do.....	248,141,880	12,424,506
Total other cereals and their flours.....do.....	5,132,679,569	216,376,966
Total of above breadstuffs.....do.....	19,629,818,873	905,095,781
All other breadstuffs.....		15,313,376
Total breadstuffs.....		920,409,157
Cotton, unmanufactured.....pounds.....	3,367,677,985	1,137,371,252
Eggs.....dozen.....	38,789,470	18,812,231
Fruits and nuts:		
Apples, apricots, peaches, prunes, raisins, and other grapes, dried, pounds.....	289,261,807	42,896,366
Lemons and oranges.....boxes.....	2,085,384	9,010,298
Apples, green or ripe.....barrels.....	1,712,367	14,471,282
All other fruit.....		56,210,837
Peanuts.....pounds.....	19,778,490	2,123,41
All other nuts.....		1,462,408
Total fruit and nuts.....		126,264,602
Hay.....tons.....	32,144	963,152
Honey.....pounds.....	9,075,502	1,955,091
Hides and skins, raw.....do.....	24,923,651	10,895,321
Hops.....do.....	20,797,504	8,832,255
Meat and dairy products:		
Meat products—		
Beef products.....pounds.....	408,441,264	104,669,890
Hog products.....do.....	2,637,638,776	828,454,216
Mutton.....do.....	3,009,164	632,667
Sausage and sausage casings.....do.....	47,564,649	15,483,628
Lard compounds and stearin.....do.....	145,801,824	35,772,307
Total of above meat products.....do.....	3,242,545,677	985,012,708
Other meat products.....		29,148,452
Dairy products—		
Butter, cheese, and preserved milk.....pounds.....	900,897,620	144,671,760
Other dairy products.....		2,013,705
Total meat and dairy products.....		1,160,846,625

272 REVIVING THE ACTIVITIES OF WAR FINANCE CORPORATION.

United States exports of the principal domestic agricultural products of the United States.—Continued.

FOR THE CALENDAR YEAR 1919—Continued.

Articles.	1919	
	Quantity.	Value.
Vegetable oils:		
Corn.....pounds..	6,415,054	\$1,551,319
Cottonseed.....do..	193,133,751	40,890,202
Peppermint.....do..	97,880	654,282
Total of above oils.....do..	199,646,685	43,095,803
Linseed.....gallons..	1,525,178	2,606,685
All other vegetable oils.....do..		54,636,216
Total, vegetable oils.....do..		100,338,904
Seeds:		
Cotton.....pounds..	1,918,848	88,743
Flaxseed.....do..	929,376	125,158
Grass.....do..	25,730,537	5,556,689
Total of above seeds.....do..	28,578,821	5,770,590
All other seeds.....do..		2,771,836
Total, seeds.....do..		8,542,426
Sugar and molasses:		
Molasses.....gallons..	6,867,779	1,311,217
Sirup.....do..	16,731,846	10,299,244
Sugar.....pounds..	1,475,407,678	114,737,491
Tobacco:		
Unmanufactured.....do..	776,684,918	259,987,837
Manufactured—		
Cigarettes.....thousands..	16,209,769	38,063,591
Cigars.....do..	50,086	1,088,531
Plug and smoking.....pounds..	11,888,436	6,006,273
All other tobacco.....do..		1,708,427
Total manufactured.....do..		46,866,822
Vegetables:		
Beans and dried peas.....bushel..	4,271,526	22,630,248
Onions.....do..	816,959	2,095,142
Potatoes (except sweet).....do..	3,642,322	6,475,203
Pickles and sauces.....do..		2,039,641
Canned vegetables.....do..		11,355,391
All other.....do..		3,237,009
Total.....do..		47,832,634
Wool, unmanufactured.....pounds..	2,339,950	2,230,629

FOR THE 10 MONTHS ENDING OCTOBER, 1920, AND ESTIMATED ON THIS BASIS FOR THE CALENDAR YEAR 1920.

Articles.	10 months, 1920.		Estimated, calendar year 1920.	
	Quantity.	Value.	Quantity.	Value.
Animals: Cattle, hogs, horses, mules, and sheep.....number..	173,316	\$15,927,584	207,979	\$19,113,101
Breadstuffs:				
Wheat, wheat flour, bran and middlings, millfeed, bread and biscuit.....pounds..	13,513,328,931	673,011,987	16,215,994,717	807,614,584
Rice.....do..	306,383,665	32,778,403	367,660,662	39,334,084
Other cereals: Barley, buckwheat, corn, oats, rye, corn meal, oatmeal, and rye flour; total of other cereals and flours, pounds.....	4,618,983,540	167,395,344	5,542,780,248	200,874,413
Total all breadstuffs (including above).....do..		883,074,958		1,059,689,950
Eggs.....dozen..	22,927,263	11,528,022	27,512,716	13,594,826
Cotton, unmanufactured.....pounds..	2,407,662,146	852,950,851	2,889,194,675	1,143,541,021

REVIVING THE ACTIVITIES OF WAR FINANCE CORPORATION. 273

United States exports of the principal domestic agricultural products of the United States.—Continued.

FOR THE 10 MONTHS ENDING OCTOBER, 1920, AND ESTIMATED ON THE BASIS FOR THE CALENDAR YEAR 1920—Continued.

Articles.	10 months, 1920.		Estimated, calendar year 1920.	
	Quantity.	Value.	Quantity.	Value.
Fruit and nuts:				
Apples, apricots, peaches, prunes, and raisins, and other grapes, dried.. pounds..	129,217,889	\$21,977,927	155,061,467	\$26,373,512
Lemons and oranges..... boxes..	1,500,088	7,349,129	1,800,106	8,818,955
Apples, green or ripe..... barrels..	802,923	6,768,341	963,508	8,122,099
Peanuts..... pounds..	7,153,156	923,994	8,583,787	1,108,793
Total fruit and nuts (including above).....		65,984,931		79,181,917
Meat and dairy products:				
Beef products..... pounds..	220,902,956	46,145,892	265,083,547	55,375,070
Hog products..... do..	1,216,636,476	300,091,570	1,459,963,771	360,109,884
Mutton..... do..	3,041,655	646,961	3,649,986	776,353
Sausage and casings..... do..	34,360,728	10,670,451	41,232,874	12,804,541
Lard substitutes and stearin..... do..	39,388,032	8,918,127	47,265,638	10,701,752
Butter, cheese, and preserved milk..... do..	408,166,279	73,325,173	489,799,535	87,990,208
Total meat and dairy products (including above).....		452,041,653		542,449,984
Molasses..... gallons..	5,339,472	1,077,238	6,407,368	1,292,686
Sirup..... do..	5,738,480	3,803,201	6,886,176	4,563,841
Sugar..... pounds..	870,365,861	88,544,975	1,044,439,033	106,253,970
Tobacco:				
Unmanufactured..... do..	405,598,872	211,734,159	486,718,646	254,080,991
Cigarettes..... thousands..	13,550,542	31,148,917	16,260,650	37,378,700
Cigars..... do..	47,652	1,044,530	57,182	1,253,436
Plug and smoking..... pounds..	8,071,425	4,178,425	9,685,710	5,014,110
Vegetables:				
Peas and beans..... bushels..	1,855,524	8,115,203	2,226,629	9,738,244
Onions..... do..	806,537	1,872,661	967,844	2,247,193
Potatoes..... do..	2,942,285	8,520,669	3,530,742	10,224,803
Total vegetables (including above).....		28,524,743		34,229,692

FOR THE CALENDAR YEARS 1913 AND 1914.

Articles.	1913		1914	
	Quantity.	Value.	Quantity.	Value.
Animals:				
Cattle..... number..	26,236	\$851,060	8,694	\$515,046
Hogs..... do..	12,118	133,962	12,399	157,421
Horses..... do..	29,356	4,217,928	92,923	17,461,687
Mules..... do..	5,075	797,370	9,771	1,675,130
Sheep..... do..	170,411	595,324	78,227	317,939
Total of above.....	243,196	6,595,644		20,127,223
All other, including fowls.....		475,411		292,034
Breadstuffs:				
Wheat..... pounds..	5,970,538,080	95,098,838	10,431,716,640	187,184,100
Wheat flour..... do..	2,406,528,376	56,865,444	2,502,738,308	62,391,503
Bran and middlings..... do..	10,285,040	123,216	11,643,520	145,780
Millfeed..... do..	323,225,280	3,792,872	100,578,240	1,276,467
Bread and biscuit..... do..	11,544,910	661,048	12,646,796	725,145
Total wheat and products..... do..	8,722,131,686	156,541,418	13,059,323,504	251,722,995
Rice and rice bran..... do..	31,959,659	914,932	54,824,437	2,116,621
Other cereals—				
Barley..... do..	613,548,816	7,882,342	873,992,928	11,183,382
Buckwheat..... do..	70,512	1,532	9,430,080	191,668
Corn..... do..	2,336,058,504	26,515,146	875,064,344	12,246,293
Oats..... do..	168,787,936	2,106,846	1,122,139,744	19,026,302
Rye..... do..	111,716,024	1,376,249	419,285,160	7,794,125
Corn meal..... do..	80,175,368	1,337,341	68,198,788	1,294,964

274 REVIVING THE ACTIVITIES OF WAR FINANCE CORPORATION.

United States exports of the principal domestic agricultural products of the United States.—Continued.

FOR THE CALENDAR YEARS 1913 AND 1914—Continued.

Articles.	1913		1914	
	Quantity.	Value.	Quantity.	Value.
Breadstuffs—Continued.				
Other cereals—Continued.				
Oat meal.....pounds..	41,369,565	\$1,347,996	28,601,085	\$1,028,171
Rye flour.....do....	1,270,472	29,831	10,164,952	249,615
Total other cereals and their flours.....pounds..	3,352,997,197	40,593,382	3,406,877,061	53,014,520
Total of above breadstuffs.....do....	12,207,088,542	198,049,732	16,521,025,022	306,854,136
All other breadstuffs.....do....		5,342,124		3,426,737
Total breadstuffs.....do....		203,391,856		310,280,873
Cotton, unmanufactured.....pounds..	4,481,868,754	575,496,653	3,285,408,833	343,904,905
Eggs.....dozen.....	17,668,575	3,808,645	21,019,166	5,154,327
Fruits and nuts:				
Apples, apricots, peaches, prunes, raisins, and other grapes, dried.....pounds..	176,150,661	11,926,914	111,873,100	8,566,459
Lemons and oranges.....boxes..	964,370	3,027,917	1,934,179	4,577,888
Apples, green or ripe.....barrels..	1,920,221	7,417,400	1,541,361	5,695,621
All other fruit.....do....		10,541,214		10,028,871
Peanuts.....pounds..	7,709,639	391,508	6,737,006	378,793
All other nuts.....do....		403,742		287,871
Total fruits and nuts.....do....		33,708,695		29,535,503
Hay.....tons.....	56,173	947,351	50,015	832,490
Honey.....pounds..	(1)	(1)	(1)	(1)
Hides and skins, raw.....do....	22,155,356	2,979,440	21,528,031	3,396,183
Hops.....do....	25,701,497	7,483,670	11,056,449	2,926,401
Meat and dairy products:				
Meat products—				
Beef products.....do....	168,092,792	17,221,894	183,353,943	20,954,052
Hog products.....do....	1,029,778,833	124,138,511	827,523,130	102,048,277
Mutton.....do....	4,789,431	547,893	3,847,093	436,069
Sausage and sausage casings.....do....	36,505,726	5,122,604	30,525,560	4,695,525
Lard compounds and stearin.....do....	67,233,560	6,073,035	66,595,380	5,966,839
Total of above meat products.....do....	1,297,200,342	153,104,237	1,111,845,106	134,100,762
Other meat products.....do....		4,382,232		3,636,731
Dairy products—				
Butter, cheese, and preserved milk, pounds.....do....	22,238,874	2,639,790	30,317,011	3,456,886
Other dairy products.....do....		480,309		279,862
Total meat and dairy products.....do....		160,606,568		141,474,241
Vegetable oils:				
Corn.....pounds..	17,788,647	1,219,362	16,198,953	1,127,146
Cottonseed.....do....	264,778,781	17,991,098	216,308,961	14,683,798
Peppermint.....do....	112,390	367,023	119,037	309,450
Total of above oils.....do....	282,679,818	19,577,483	232,626,951	16,120,394
Linseed.....gallons..	1,590,771	783,713	265,781	154,317
All other vegetable oils.....do....		671,893		621,999
Total vegetable oils.....do....		21,033,089		16,896,710
Seeds:				
Cotton.....pounds..	24,606,185	350,606	10,965,792	144,097
Flaxseed.....do....	283,133	397,747	23,684	42,112
Grass.....do....	23,571,172	2,081,128	25,014,678	2,468,666
Total of above seeds.....do....	48,460,490	2,829,481	36,004,154	2,654,875
All other seeds.....do....		506,944		578,873
Total seeds.....do....		3,336,425		3,233,748
Sugar and molasses:				
Molasses.....gallons..	1,493,390	245,927	879,102	119,859
Sirup.....do....	13,237,132	1,742,278	10,704,687	1,371,513
Sugar.....pounds..	51,772,125	1,873,923	390,409,054	18,233,455

¹ Not segregated.

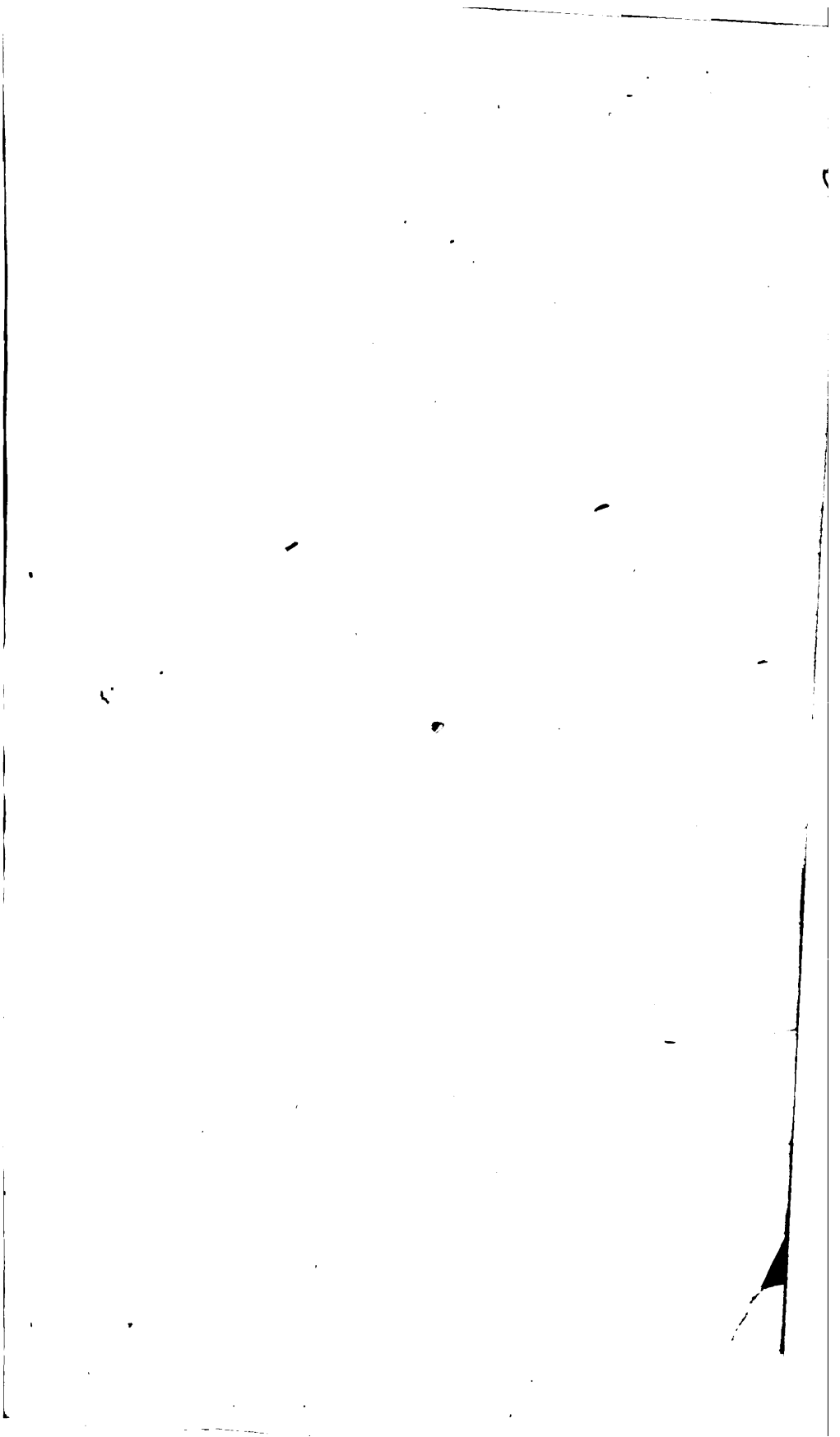
REVIVING THE ACTIVITIES OF WAR FINANCE CORPORATION. 275

United States exports of the principal domestic agricultural products of the United States.—Continued.

FOR THE CALENDAR YEAR 1913 AND 1914—Continued.

Articles.	1913		1914	
	Quantity.	Value.	Quantity.	Value.
Tobacco:				
Unmanufactured.....pounds..	444,371,661	\$52,637,894	347,295,269	\$43,908,364
Manufactured—				
Cigarettes.....thousands..	2,318,802	4,109,421	2,407,226	4,227,440
Cigars.....do.....	1,796	35,636	1,846	32,122
Plug and smoking.....pounds..	7,801,087	2,393,098	7,578,489	2,543,215
All other tobacco.....		217,755		179,846
Total manufactured.....		6,755,910		6,982,632
Vegetables:				
Beans and dried peas.....bushels..	339,511	909,740	597,925	1,795,852
Onions.....do.....	411,371	331,001	617,582	620,919
Potatoes (not sweet).....do.....	1,816,589	1,448,906	2,714,835	2,238,896
Pickles and sauces.....		923,880		913,833
Canned vegetables.....		1,615,351		1,587,359
All other.....		1,608,667		1,598,896
Total.....		6,837,545		8,755,755
Wool, unmanufactured.....pounds..	(1)	(1)	(1)	(1)

¹ Not segregated.



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